BARNSTABLE COUNTY HOME CONSORTIUM

UNDERWRITING ANALYSIS OF FUNDING REQUEST

APPLICANT/SPONSOR: Stratford Capital Group

PROJECT NAME/ADDRESS: Coady School Residences
85 Cotuit Road- Bourne

HOME $ REQUESTED: $250,000

TOTAL DEVELOPMENT COST: $17,584,343

OF PROJECT UNITS: 58 # OF AFFORDABLE UNITS: 58

OF HOME UNITS: 11

PROJECT SCORE: 97

DATE: May 12, 2015

1. Overview

Coady School Residences will involve the adaptive reuse of the former Coady Middle School into a 58 unit, 100% affordable, age restricted (55+) rental project. All fifty eight (58) units will be rented to individuals or families with incomes at or below sixty percent (60%) of area medium income (AMI), and 21% of the units (12 units) will be for individuals or households who earn less than thirty percent (30%) AMI. There will be 8 project-based MRVP's and 4 non rent assisted units at $483 per month for the 30% AMI households. Six of the units will be reserved for homeless individuals or families.

There will be 1 studio unit; thirty-one (31) one bedroom units, and twenty-six (26) two bedroom apartments. The existing building will be converted into 31 apartments, and the new, attached wing will house 27 units. The property was constructed in 1905 and is listed on the National Register of Historic Places and will be rehabilitated in accordance with National Park Service standards that will enable the project to access both state and federal historic tax credits.

The development team includes the same participants that completed the Simpkins School Residences project in Yarmouth: Stratford Capital Group is the

developer; ICON Architecture is the architect; Callahan Inc. is the general contractor; Coler & Colantonio (now Clough Harbour & Associates- CHA) is the Civil Engineer; Design Technique is the Owner's Rep.; and Winn Management is the property management company.

Stratford Capital Group was selected by the Town of Bourne as the designated developer in response to an RFP, and Stratford has an executed purchase and sale agreement with the Town. The Bourne Zoning Board of Appeals issued a comprehensive permit for the development on February 22, 2013; therefore, Stratford has the necessary site control and zoning permit to proceed with the project.

The Property is situated on approximately 4.37 acres of land located at 85 Cotuit Road, Bourne. The Property is bounded to northeast by various residences; to the northwest by the Bourne School Department administrative offices, to the east by James Peebles Elementary School, to the west by woodlands, to the southeast by Bourne High School; and, to the south by baseball diamond and landscaped areas (portion of the site parcel).

The Consortium made a $250,000 award to this project in May 2014; however, that award had a September 30, 2014 date for the project to close. Stratford is requesting that the Consortium confirm its $250,000 commitment and extend the closing date to December 31, 2015.

2. Executive Summary

A. Challenges/Opportunities: This project is similar to four other school adaptive reuse projects that this team has completed since 2007, including Simpkins School Residences in Yarmouth. Absent the public financing, the project is ready to proceed as it is permitted and has permit plans completed. This is Stratford's third submission to DHCD for tax credit funding.

B. Affordability: 100% of the units are affordable to households at/below 60% AMI: 46 units (79%) to households at/below 60% AMI and 12 units (21%) to households at/below 30% AMI.

C. Risk Factors:

Developer: Low- The principals of Stratford have completed 30 affordable apartment complexes since 1995, including four other completed school adaptive reuse projects since 2007. Stratford also has a tax credit syndication arm and therefore has ready access to tax credit investors.

Underwriting Assumptions: Moderately Low- Total Development Cost (TDC) of $303,200/unit and construction costs of $163 per square foot are both at the lower end of recent tax credit, multi-family Consortium funded developments. Soft costs at 17.4% of TDC are above the Consortium's preferred

maximum of 15%; however, they are comparable to other tax credit projects. Developer overhead and fee of 10.7% is below the Consortium's 15% maximum. Tax credit rents are about 10% higher than 2014 HOME one bedroom rents and comparable to HOME's two bedroom rents. The vacancy rate of 5% is standard albeit conservative given the 97-100% occupancy rates in comparable projects reviewed in the market study. Debt service coverage (dsc) of 1.45 at year one far exceeds the Consortium's 1.15 guideline; however, dsc declines to 1.13 by year 15 because of negative trending assumptions of rents increasing 2% annually and expenses increasing 3% annually. Annual property management expenses of $8,092 per unit are comparable, albeit at the high end of the range, to recent tax credit projects. Replacement reserves are the standard $325 per unit per year.

Construction: Moderately Low- Callahan Inc. is a Bridgewater-based company founded in 1954. It does work throughout the Northeast and Florida and has completed other affordable housing/special needs developments. It very capably and successfully completed the Simpkins School project when the original contractor in effect left the job.

Market/Leasing: Moderately Low- The market study estimated that project rents are 12-15% below market rents with an estimated a 6-8 month lease up period. The capture rate (% of income eligible renters) from the primary and secondary market area was about 2.6% (a capture rate of less than 10% is considered an indicator of sufficient demand). Recent Consortium funded age restricted rental projects have not encountered issues with initial lease up.

Property Management: Low- Winn Residential is a national company that manages over 83,000 apartments and condominiums in 22 states. The on site staffing includes one full time property manager, 20-30 hour per week maintenance employee, and 15-20 hour per week resident services coordinator.

Overall Risk Analysis: The proposed project presents a favorable (low to moderately low) risk profile. A satisfactory (HUD approved finding of no significant environmental impact) environmental review has been completed and approved by HUD. The site is not located in a flood zone, there are no wetlands on site, it is not within any airport accident zones, and it is not within a mapped endangered species habitat. Both lead and asbestos have been found in the building; however, the rehab scope of work has incorporated remediation measures for both substances.

3. Property Description

The Property is situated on approximately 4.37 acres of land located at 85 Cotuit Road, Bourne. The Property is bounded to northeast by various residences; to the northwest by the Bourne School Department administrative offices, to the east by James Peebles Elementary School, to the west by woodlands, to the southeast by Bourne High School; and, to the south by baseball diamond and landscaped areas (portion of the site parcel).

4. Development Entity and Team's Capacity

A. Prior Developments: The principals of Stratford have completed 30 affordable apartment complexes since 1995, including four other completed school adaptive reuse projects since 2007 including Simpkins School in Yarmouth. Stratford also has a tax credit syndication arm and therefore has ready access to tax credit investors. The architect was used on Stratford's prior school adaptive reuse projects, Callahan was the general contractor that completed the Simpkins School project, and Winn is a very experienced and capable property management firm that has been involved in Stratford's earlier projects.

B. Current Operational Capacity: Stratford was formed in 2006 and has over 25 executive level staff. Stratford and its subsidiary entities do development, tax credit syndication, and asset management of tax credit properties. Since 2007, Stratford has played at least one of these roles in 96 multifamily projects totaling over 12,000 units covering 28 states.

C. Financial Strength: As noted above, Stratford has completed numerous tax credit projects and stated in its DHCD application that it is in full compliance with all tax credit financial requirements. No company financials were submitted as part of the application however.

D. Standing Re: Prior HOME Awards: Stratford is in good standing on the Simpkins School development.

5. Market Need/Study

An independent market study was completed by Bonz and Company which indicated strong demand for newly constructed affordable age restricted units. The market study estimated that project rents are 10-12% below market rents with an estimated a 6-8 month lease up period. The capture rate (% of income eligible renters) from the primary and secondary market area was about 2.6% (a capture rate of less than 10% is considered an indicator of sufficient demand). The recent Consortium funded age restricted rental projects (Veterans Park/Schoolhouse Green- 39 units; Clay Pond Cove- 45 units; and Simpkins- 65 units) have fully leased up in 3-6 months.

6. <u>Location and Design Issues</u>: The redevelopment/adaptive reuse of an existing building is one of the Consortium's development priorities. The site is reasonably close to public and other services, public transportation, park and recreational facilities, and shopping facilities.

The existing building is approximately 44,225 gross square feet. The rehabilitation will consist of selective demolition; total removal of existing systems; the addition and/or reinforcement of structural elements to meet current codes; the replacement of the majority of existing windows, exterior doors, and roofing systems; the installation of new elevators, mechanical, plumbing, electrical, and fire protection systems; the reconfiguration of existing spaces to create 31 units; and restoration of interior wood trim and paneling in the existing auditorium.

The exterior scope of work will include the complete restoration of the existing brick façade and wood trim along with new fenestration consistent with historic preservation standards.

The new addition will be approximately 32,650 gross square feet of a three story, wood frame structure on slab on grade that will create 27 apartments and include an elevator and the central laundry facilities. An advanced wastewater treatment (Amphidrome) system also will be installed on site.

The average size of a one bedroom unit is 696 sf and the average of the two bedroom unit is 894 sf. All apartments will have electric ranges, frost-free refrigerators, dishwashers, central air conditioning, and garbage disposals. Tenants will pay for their own utilities and will have access to a laundry room, fitness room, community and media room, as well as dedicated storage units outside of their apartment.

The design incorporates most of DHCD's sustainable design features including exceeding code requirements for insulation and energy efficiency, no or low VOC materials, recycling of demolition waste, etc.

7. <u>Proposed Financial Structure- Sources and Uses</u>

TDC is approximately $17.6 million (about $303,000 per unit), and the deal is proposed to be structured as follows: tax credit equity (75.8%); permanent loan (8.3%); and public subsidies/subordinate loans, including HOME (15.9%).

The uses are as follows: acquisition (2.3%); construction (70.7%); soft costs (17.4%); and developer overhead and fee (10.7%).

8. Underwriting

A. Development Budget:

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

Construction costs at $163 per square foot is higher than the $135 per square foot cost at Simpkins and is within the range of other recent larger new construction multi-family projects: Province Landing- $149/sf; Clay Pond Cove- $185/sf; Veterans Park- $167/sf ; and Route 134- $254/sf.

Soft costs represent 17.4% of TDC, and again individual line items and overall soft costs appear consistent with the tax credit projects noted above: Simpkins- 17.2%; Province Landing- 19.1%; Clay Pond Cove- 16.9%; Veterans Park- 17.1%; and Route 134- 21.1%.

B. Operating Budget:

As noted earlier, tax credit rents are about 10% higher than 2014 HOME one bedroom rents and comparable to HOME's two bedroom rents and 10-12% less than market rents. A standard 5% vacancy rate was used as required by the tax credit investor- even for the project based units, and $325 per unit annual replacement reserve was included. The tenant pays for all their utilities except for water. Again, individual line items appeared reasonable with an overall property management expense of $8,092 per unit per year. In comparison, Province Landing was $6,193; Veterans Park was $7,066; Clay Pond Cove was $7,433; Simpkins was $7,097; and Route 134- $9,414.

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

The total allowable 221d3 limit for the project is $10,529,489. As there will be 11 HOME assisted units out of the 58 units, applying a fair share (19.0%) to the total project limit results in a maximum allowable HOME investment to the project of $2,000,603. The proposed HOME investment in the project is $250,000: 12.5% 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 $250,000 is the minimum amount of HOME funds to invest in this project to make it feasible.

9. Additional Considerations

None.

10. Conclusion

As noted earlier, the project provides 100% affordable age restricted rental units to households at or below 60% AMI, and it has a favorable (low to moderately low) risk profile with no major risks identified. The development project review committee's recommendation is to confirm the Consortium's prior $250,000 conditional award and to extend the closing date until December 31, 2015.

11. Attachments

- Coady Memo.
- Cover Letter- Self Scoring.
- Tax Credit Repeat Section.

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