BARNSTABLE COUNTY HOME CONSORTIUM

UNDERWRITING ANALYSIS OF FUNDING REQUEST

APPLICANT/SPONSOR: Dakota Partners

PROJECT NAME/ADDRESS: Village Green- Phase II
770 Independence Drive- Hyannis

HOME $ REQUESTED: $125,000

TOTAL DEVELOPMENT COST: $16,122,383

\# OF PROJECT UNITS: 60 # OF AFFORDABLE UNITS: 60

\# OF HOME UNITS: 11

PROJECT SCORE: 85

DATE: May 12, 2015

1. Overview

Village Green- Phase II is a new construction affordable apartment complex located off Independence Drive in Hyannis. The project was permitted under Chapter 40B. This request is for the second phase of the project that will result in a total of 120 units. The unit mix of Phase II of the project is the same as Phase I and consists of 60 units: 14 one bdrm; 42 two bdrm; and 4 three bdrm. As with Phase 1, there will be two buildings of three stories each with 30 apartments in each. Forty-five (45) units will be leased to families earning less than 60% AMI; seven (7) units to households earning less than 50% AMI via project-based MRVP's; and eight (8) will be leased to families earning less than 30% AMI for Barnstable County via Section 8 PBV's. These fifteen project-based units will be reserved for individuals or families who are homeless or at risk of homelessness. Phase I involves two apartment buildings of three stories each, a community building and approximately 70% of the total infrastructure. Phase II will consist of 60 units within two three story buildings identical to those in Phase I along with the remaining 30% of infrastructure.

The development team is led by Dakota Partners, Inc. (Dakota) (developer & contractor) which has been in existence since 2006. Dakota is a merger of two long standing firms previously known as Emerald Development and Austin

Development. Both Dakota and it predecessors have a background in multifamily condo and rental development. Dakota has completed two tax credit projects in Massachusetts consisting of 72 units and 24 units located in Tyngsboro and recently completed another tax credit project in New Hampshire. Dakota has a 72 unit tax credit project under construction in Connecticut along with Village Green I here. The architectural firm is LaFreniere Architects, located in Cambridge. Property management will be by Hall Keen.

The Consortium made a $125,000 award for this project in November 2013 with a closing date of October 30, 2014. As the award letter was never executed by Dakota and as the award deadline expired, the funds were never reserved with HUD. Below is a comparison of the changes in the major categories of the development budget from the initial submission to this one:

	August 2013	April 2015	% Change
Acquisition	$1,570,000	$1,570,000	----
Construction	$9,145,221	$9,969,710	9%
Soft costs	$2,768,679	$3,082,873	11.4%
Developer oh/fee	$1,358,000	$1,499,800	10.4%
Total	$14,841,900	$16,122,383	8.6%

2. Executive Summary

A. Challenges/Opportunities: The Consortium made a $125,000 conditional commitment to Phase I which is currently nearing construction completion. The main initial concern associated with the project is its location in Independence Park and the impact the location may have on marketability, and the current lease up status will be described in a subsequent section. Absent the public financing, it is ready to proceed as it is permitted and has design plans 100% complete. This is Dakota's third submission to DHCD for tax credit funding for Phase II.

B. Affordability: 100% of the units are affordable to households at/below 60% AMI: 45 units (75%) to households at/below 60% AMI; 7 units to households at/below 50% AMI; and 8 units to households at/below 30% AMI. The 50% and 30% units will be reserved, with project-based vouchers, to individuals or families who are homeless or at risk of homelessness.

C. Risk Factors:

Developer: Moderately Low- Dakota is a real estate development corporation with no assets, and it also has a construction arm of the firm which will be the general contractor. The properties/assets are owned by single purpose entities in which principals of Dakota and other partners are the managing members. The guarantees required of the owners by the tax credit purchaser, MHP, and DHCD mitigate against the lack of capitalization by the developer. Dakota has staff with significant tax credit experience in NH, CT. and Mass.

Underwriting Assumptions: Low-Moderate- Total Development Cost (TDC) of $268,706/unit and construction costs of $150 per square foot are both at the lower end of recent new construction, multi-family Consortium funded developments. Soft costs at 19.1% 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 10.3% is below the Consortium's 15% maximum.

Tax credit rents are about 5-14% below HOME rents on the 2 and 3 bedroom units; however, HOME rents are $121 lower than tax credit rents on the one bedroom units. With most of the HOME units likely to be project-based, the one bedroom rent difference will not have much of an impact on the operating budget. The vacancy rate of 7% is very conservative given 99%+ occupancy cited in the market study of comparable affordable projects.

Debt service coverage (dsc) of 1.20 at year one satisfies the Consortium's minimum 1.15 guideline; however, because of negative trending the dsc declines to .97 at year 15. Staff believes that with adjustment to the vacancy rate and a potential reduced first mortgage because of a reduction in the builder's overhead and profit (to be further discussed in Section 8.A), the project should show a positive cash flow through at least year 15.

Annual property management expenses of $9,270 per unit are at the very high end of recent tax credit projects and will be analyzed further in Section 8B. Replacement reserves are $350 per unit per year.

Construction: Moderately Low- Dakota is both the developer and the contractor. The principals of Dakota have had 10-15 years of development experience with 29 projects and over 300 units- albeit primarily condo projects. Dakota has completed three tax credit projects that totaled over 120 units and has 132 tax credit units under construction in two projects. Dakota's construction of Village Green I has generally been on schedule.

Market/Leasing: Moderately Low- The market study for Phase II estimated that project rents are 27-35% below market rents and below the rents of other affordable properties in the report. The study also identified market properties that leased up despite the presence of nearby overhead power lines. The Phase II market study estimated a 6 month lease up period, and stated that the capture rate (% of income eligible renters) was about 6% (a capture rate of less than 10% is considered an indicator of sufficient demand). Staff has observed that recent Consortium funded family rental projects have not encountered issues with initial lease up. Dakota received 191 applications for the lottery for six PBV's in Phase I, and 137 applications for the 60% units. Since the lottery deadline closed, Dakota received another 80 applications. As of May 7, 2015, 10 households had been approved for move in, 19 files are under review, and an additional 15 files in process.

Property Management: Low- Hall Keen is a national company that manages over 9,000 apartments in New England and along the East Coast. The staffing for Phase II includes one full time property manager, one full time maintenance person, and either a staff or contracted full time resident services coordinator to facilitate and/or provide support services for the residents.

Overall Risk Analysis: With the prior concerns about the location's impact upon marketability largely mitigated by the application response to Phase I, the proposed project presents a favorable (low to moderately low) risk profile. A satisfactory (HUD approved finding of no significant environmental impact) environmental review was completed for Phase I, and unless there are unexpected changes to the site, there will not be a need for further environmental review for Phase II.

3. Property Description

The project site is an undeveloped 14.32 acre parcel off Independence Drive near the intersection of Mary Dunn Road. The parcel includes two sets of power lines on the western edge and has little development immediately nearby (church, school, non-profit). Barnstable Airport is nearby to the south, and Independence Drive primarily has office and light industrial uses. The nearest residences are single family homes about a mile to the northeast of the site. Route 6 abuts the northern edge of the property, and the buildings in Phase II will be approximately 250-400 feet from Route 6.

As noted earlier, a satisfactory (HUD approved finding of no significant environmental impact) environmental review was completed for Phase I, and unless there are unexpected changes to the site, there will not be a need for further environmental review for Phase II.

4. Development Entity and Team's Capacity

A. Prior Developments: As noted earlier, the principals of Dakota have had 10-15 years of development experience with 29 projects and over 300 units- albeit primarily condo projects. Dakota has completed three tax credit projects that totaled over 120 units and has 132 tax credit units under construction in two projects. Dakota's construction of Village Green I has generally been on schedule.

One staff member has over 15 years' affordable housing experience in securing financing for 40B and tax credit deals. The architect was used on Dakota's prior tax credit project, and Hall Keen is a very experienced and capable property management firm.

B. Current Operational Capacity: Dakota has seven staff, including a construction manager/supervisor who has over 25 years of construction experience. Dakota sub-contracts for all aspects of construction, and both Phase I and Phase II will involve modular construction.

C. Financial Strength: As noted earlier, Dakota is basically a shell corporation with no assets. The properties/assets are owned by single purpose entities in which principals of Dakota and other partners are the managing members. The guarantees required of the owners by the tax credit purchaser, MHP, and DHCD mitigate against the lack of capitalization by the developer.

D. Standing Re: Prior HOME Awards: N/A as this is Dakota's second request for HOME Consortium funding and Phase I has not yet been completed.

5. Market Need/Study

An independent market study dated April 15, 2015 was completed by LDS Consulting which indicated potentially strong demand for newly constructed affordable family units. In response to a comment from DHCD concerning the potential market impact of the power lines located adjacent to the project, Dakota had LDS consulting analyze the issue. It was found that power lines in proximity to multifamily housing do not negatively impact marketability, and LDS was able to document several projects in the Boston metro area which offer high rents and maintain successful operations. The market study estimated project rents are 27-35% below market rents and less than comparable affordable developments. The study identified comparable affordable properties that all had occupancy rates of 99%+ and reported no issues with filling vacancies. The Phase II market study estimated a 6 month lease up period, and stated that the capture rate (% of income eligible renters) was about 6% (a capture rate of less than 10% is considered an indicator of sufficient demand). Recent Consortium funded family rental projects have not encountered issues with initial lease up. Dakota received 191 applications for the lottery for six PBV's in Phase I, and 137 applications for the 60% units. Since the lottery deadline closed, Dakota received another 80 applications. As of mid April, one Section 8 household and 2 tax credit households have been approved for occupancy.
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6. Location and Design Issues

As referenced in the site description, a three story apartment complex development of this scale in an industrial zoned area does not match surrounding uses and would not be the preferred affordable housing location. However, the market study did note that the demand for affordable rentals is so strong in Barnstable and the market area that any locational issues would not impact the developer's ability to market the units. Dakota is required by the comp permit to erect a bus shelter, and it has a letter from the RTA that the RTA will extend the Barnstable Villager service to the site once Phase I is completed.

Dakota intends to use modular construction for this project. The apartments are appropriately sized: 700 sf for one bdrm; 950 sf for two bdrm; and 1,100 sf for the three bdrm units. Three of units will be accessible for those with mobility impairments, and HOME requires two additional units be accessible to those with sensory impairments. In addition, as a condition of the comp permit, all buildings were required to have elevators. In the prior approval, the Consortium required that additional tenant storage space be provided outside of the units, and staff recommends such a condition in this submission as well.

Dakota typically works with the LEED program to certify its multifamily projects, and Dakota intends to certify Village Green as a LEED project. In order to achieve this certification there will be many "green" elements to the project including: highly insulated walls, roof and floors, Energy Star compliant appliances, and HVAC units which exceed 90% efficiency. 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

TDC is approximately $16.1 million (about $269,000 per unit), and the deal is proposed to be structured as follows: tax credit equity (71.9%); permanent loan (13.1%); and public subsidies/subordinate loans, including HOME (15.0%).

The uses are as follows: acquisition (9.7%); construction (60.9%); soft costs (19.1%); and developer overhead and fee (10.3%).

8. Underwriting

A. Development Budget:

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

Construction costs at $150 per square foot appear very reasonable based upon 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.

Staff notes that builder general conditions, overhead, and fee totaled 17.6% of base construction costs- well above DHCD's 40B standard of 14% for related party entities; therefore, should DHCD approve the project for funding, these line items will need to be reduced by about $320,000. This cost reduction may result in a smaller first mortgage (and monthly payment) that, along with other adjustments to the budget, will enable the project to maintain a positive debt service coverage through at least year 15.

Soft costs represent 19.1% of TDC, and again individual line items and overall soft costs appear consistent with the tax credit projects noted above: 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 5-14% below HOME rents on the 2 and 3 bedroom units; however, HOME rents are $121 lower than tax credit rents on the one bedroom units. With most of the HOME units likely to be project-based, the one bedroom rent difference will not have much of an impact on the operating budget. A very conservative 7% vacancy rate was used- even for the project based units, and $350 per unit annual replacement reserve was included. Landlord pays for heat, and tenant pays for electricity and utility allowances were appropriate. Again, individual line items appeared reasonable with an overall property management expense of $9,270 per unit per year.

This is at the high 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.

Staff notes that the inclusion of a full time resident service coordinator added $833 per unit/year to the budget. With a fully affordable project and with 25% of the households either having been homeless or at risk for homelessness, staff believes that this is a wise and necessary aspect of the operating budget.

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

The total allowable 221d3 limit for the project is $11,724,492. As there will be 11 HOME assisted units out of the 60 units, applying a fair share (18.3%) to the total project limit results in a maximum allowable HOME investment to the project of $2,149,490. The proposed HOME investment in the project is $125,000: 5.8% 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 $125,000 is the minimum amount of HOME funds to invest in this project to make it feasible.

9. Additional Considerations

The only additional consideration is to carefully monitor the lease up process of Phase I.

10. Conclusion

As noted earlier, the project provides 100% affordable family rental units to households at or below 60% AMI, including 25% of the units reserved for homeless or at risk of homelessness individuals and families, it has a favorable (low to moderately low) risk profile with the prior concern about the location's impact upon marketability being largely resolved by the applicant response to Phase I. The development project review committee recommends approval of a funding award of $125,000 with the standard set of closing conditions.

11. Attachments

- DHCD cover letter.
- Threshold narrative.

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