

# Underwriting Memo – Alden Addison Horizon Senior Living Community

HOME Investment Partnerships Program - Affordable Senior Housing New Construction Project

## 1. Overview

The Alden Foundation proposes to build a three-story, 62-unit, including one apartment for a live-in maintenance manager, affordable independent senior living development, for seniors aged 62 and older. The development will include a mix of one- and two-bedroom apartments and many common area amenities, including the following: internet access; community room; fitness room; media/theater room; game room; and library. There will be 62 surface parking spaces.

The development includes 50 one-bedroom units, 2 of which will be market rate, and 12 two-bedroom units, also 2 of which will be market rate, and one will be designated for the on-site maintenance manager. The remaining 57 units will be occupied by seniors at or below 60%, 50% and 30% of the Area Median Income (AMI).

The total project cost is \$25,816,115. The primary funding source is Low Income Housing Tax Credits (LIHTC).

## 2. Executive Summary

### *2.A Challenges/Opportunities Presented*

Alden seeks HOME funds of **\$5,250,000** of the total project costs of **\$25,816,115**. The development process, including site control, entitlements, financing, closing and construction monitoring will be handled by principals of The Alden Foundation with more than 42 years of experience in affordable housing financing, development and management. Site control will be obtained from the current property owner upon closing of the real estate transaction which has been agreed upon via an executed purchase agreement. The Village of Addison has approved the project and other financing has been conditionally approved.

### *2.B Affordability*

30 units within Addison Senior Living Community will be HOME-assisted units. Of these, 24 will be targeted to households at or below 60% Median Family Income (MFI) at initial occupancy (High-HOME Units), and 6 units will be targeted to households at or below 50% MFI (Low-HOME Units). The 24 High-HOME units will be designated as 22 one-bedroom units and 2 two-bedroom units. The Low-HOME units will consist of 6 one-bedroom units.

### *2.C Sources*

Construction Bridge Loan	\$2,500,000
Low Income Housing Tax Credits	\$13,648,635
Deferred Developer Fee	\$525,000
DuPage HOME Funds (Development Subsidy)	\$5,250,000
Sponsor Loan (ComEd Grant)	\$270,856
Illinois Housing Development Authority Loan	\$3,327,124
Green Energy Credits	\$294,500
<b>Total</b>	<b>\$25,816,115</b>

## 2.D Risks

Pertinent risk factors for this project are:

Market	Low -- Low-income seniors. The project is located at the northwest corner of Green Meadow Drive and N. Denise Court in Addison, IL 60101. A site and market study performed by Valerie S. Kretchmer Associates, Inc. concluded that there is extensive demand for affordable senior housing in the market area, and the location and building will be extremely marketable to low and very low-income seniors.
Construction	Low -- similar to existing projects by the same development team.
Developer	Low -- many years of experience; highly capitalized.
Community Opposition	Low -- the Village supports and has approved the project.
Financing	Low -- Developer secured commitments from major funding sources.
Underwriting Assumptions	Low -- 6% vacancy loss rate, as required by IHDA. Reserve at \$350 per unit annually, also required by IHDA. Debt Credit Ratio (DCR) of 1.36 in year 1 and 1.31 in year 20 with \$213,137 in annual debt service payments. The project would create 30 HOME units at a cost of \$175,000 per unit, which is within HOME Program guidelines. (See remainder of this memo for further discussion.)
Other	The proposed project presents a favorable risk profile and is recommended for approval.

## 3. Property Description

The project consists of new construction of a three-story, 62-unit, (including one apartment for a live-in maintenance manager), affordable independent senior living development, for seniors aged 62 and older. Five of the 62 units will be market rate. The remaining 57 units will all be rented to low-, very low-, and extremely low-income seniors. The development will include a mix of one and two-bedroom apartments and lots of common area amenities, including the following: internet access; community room; fitness room; media/theater room; game room; and library. There will be 62 surface parking spaces.

HOME Program guidelines allow rents up to \$1,255 per month, including utilities, for a one-bedroom unit and rents up to \$1,440 per month, including utilities, for a two-bedroom unit. In an effort to serve households with very limited income, the applicant proposes 22 one-bedroom units at \$1,030 per month, 16 one-bedroom units at \$1,303 per month which will receive Project-Based Voucher (PBV) subsidy from the DuPage Housing Authority (DHA), 10 one-bedroom units at \$485 per month, which will be State Referral Network (SRN) units, and two one-bedroom market rate units at \$1,250 per month. The project will also contain nine two-bedroom units at \$1,178 per month, two two-bedroom market rate units at \$1,600 per month, and one two-bedroom unit for the on-site property maintenance manager.

Alden will pay for water & sewer and trash collection. Tenants will cover the electricity for lighting, cooking, and heating. The HOME units will use utility allowances for tenant-furnished utilities and other services as calculated using HUD Utility Schedule Model (HUSM) methodology.

## 4. Development Entity and Capacity

The development process, including site control, entitlements, financing, closing and construction monitoring will be handled by Mr. Steven Stivers, Executive Director. Mr. Stivers has more than 12 years' executive experience in affordable housing financing, development and management. Ms. Dezirae Rios, Director of Property Management for Alden Realty Services, will oversee the on-site property manager

(to be hired closer to construction completion). Ms. Rios has 8 years of experience in managing and overseeing the property management of a large portfolio of affordable senior housing.

#### *4.A Prior Developments*

Alden Realty has been managing HUD income restricted units since 1996. Types of affordable units under management include: LIHTC, HOME, IHDA Trust Fund units and Project-Based Vouchers through local housing authorities. Property managers have been trained and hold certifications in blended property management for affordable housing utilizing multiple financing sources with varying restrictions. Alden currently owns and successfully operates similar projects in Bloomingdale, Woodridge, and Warrenville.

#### *4.B Current Operational Capacity*

The Alden Foundation will act as Developer and Owner under the HOME Agreement and will provide financial oversight, grant compliance, and contractor selection for the project. Construction management will be performed by the project manager, who is part of Alden's staff. Operational and rental management will be handled by Alden Realty Services.

#### *4.C Financial Strength*

The most recent audit of Alden Foundation and Subsidiaries and Affiliates indicates total assets over \$138 Million with net assets over \$63 Million. In addition, the ongoing property management and maintenance allow for continuation of an affordable and attractive property; therefore, turnover is low. The lack of affordable housing in the Addison area and the low expected turnover enhances positive cash flow.

#### *4.D Guaranty/Bonds*

The Alden Foundation will be required to sign and abide by the terms of the HOME Agreement, Mortgage and Note, and a Regulatory Land Use Restrictions Agreement. In addition, contractors will be required to supply bonds at the level stated in the HOME Agreement.

### **5. Location and Market Dynamics**

#### *5.A Town/County Characteristics*

The property is located in the Village of Addison, Illinois, at the northwest corner of Green Meadow Drive and N. Denise Court. Although the building is not on Lake Street and is behind the Green Meadows Shopping Center, since it will be three stories tall, it will have visibility from both Lake Street and Addison Road. It will be highly marketable. The Village of Addison constructed a beautifully landscaped walk just north of the property site that connects to the park. Nearby businesses include Jewel-Osco, a hardware store, beauty salons, Portillo's, Dollar Tree and Carnicerias Jimenez grocery, among many others. Edward Elmhurst Hospital has an urgent care facility and medical offices one block west on Lake Street. The Addison library and Village Hall are also a few blocks south of the site. As such, the site is extremely well served by the amenities and services needed by seniors.

#### *5.B Property Location*

Both Lake Street and Addison Road are major arterials providing excellent access to the site. Downtown Chicago is approximately 19 miles northwest of the site. Pace bus 711 has a stop one block south of the site on Lake Street with service to Carol Stream and Wheaton. Both I-290 and I-355 are a short distance away, providing excellent regional access. This is an important consideration since the project is designed for independent seniors, many of whom drive.

## 6. Physical Character and Issues

Alden will be responsible for ensuring that the building complies with existing property standards per municipality and/or County CDC policies.

As required under the Environmental Review Record, completed in accordance with 24 CFR Part 58, the following mitigation must be performed as part of the project:

1. Radon Mitigation Plan: Radon-resistant construction methods must be incorporated in the project. Upon completion of the project, post-construction radon measurements must be taken in accordance with EPA radon measurement protocols for multifamily buildings. Should radon measurements reveal elevated concentrations, Alden must notify the County immediately, and appropriate mitigation must be completed. Radon-resistant construction methods and post-construction Radon testing requirements must be included within the project scope and construction contract.
2. Tiered Approach to Corrective Action Objectives (TACO) Mitigation Plan: Building is required to be construction as full slab-on-grade with a passive sub-slab depressurization system. TACO building requirements must be included within the project scope and construction contract.

## 7. Proposed Financial Structure

Total Development Costs are projected at \$25,816,115. Funding is anticipated to be provided from the following sources: 9.7% Bank of America loan; 52.9% Illinois Housing Development Authority (IHDA) – Low Income Housing Tax Credits; 12.9% IHDA CAHGP grant (sponsor loan); 20.3% DuPage County HOME funds, 2.0% Deferred Developer Fee; 1.1% ComEd Energy Efficiency Grant (sponsor grant); and 1.1% 45L Green Energy Credits.

<b>Permanent Financing</b>	<b>Total</b>	<b>% of Total</b>
Bank of America Loan	\$2,500,000	9.7%
Low Income Housing Tax Credits	\$13,648,635	52.9%
Deferred Developer Fee	\$525,000	2.0%
DuPage HOME Funds (Development Subsidy)	\$5,250,000	20.3%
Sponsor Loan (ComEd Grant)	\$270,856	1.1%
Illinois Housing Development Authority Loan	\$3,327,124	12.9%
Green Energy Credits	\$294,500	1.1%
<b>Total</b>	<b>\$25,816,115</b>	<b>100%</b>

Alden will execute a Mortgage and Note, as well as a Regulatory Land Use Restrictions Agreement (RLURA). The period of affordability for this HOME project will be twenty (20) years per HUD HOME regulations. An additional twenty (20) years of County imposed extended use, separate and distinct from the HOME affordability period, will be required.

## 8. Underwriting

### 8.A Assisted Units / Rents

The Alden project consists of 62 units of rental housing. The requested \$5,250,000 of HOME financing requires a minimum of 30 HOME units. The Developer has agreed to 30 HOME units; 6 Low- and 24 High-HOME rent units. The HOME agreement will stipulate the mix for HOME units as reflected in the below table. HOME units are comparably distributed among non-HOME units.

Total Development Unit Mix	Units	% of Total Units		HOME Unit Mix	HOME Units	% of HOME Units
1-bedroom	50	81%		1-bedroom	28	93%
2-bedroom	12	19%		2-bedroom	2	7%
	62 total units	100%			30 HOME units	100%

	HOME Units	20% @ Low HOME	High HOME
1-bedroom	28	6	22
2-bedroom	2	0	2
	30 HOME units	6	24

Alden intends for the HOME assisted units to be floating; this is acceptable because the units are comparable. However, the unit mix, as outlined above, must be maintained during the 20-year HOME Program affordability period. During the additional 20-year County imposed extended use period, unit mix does not apply. There are five market rate units in the project. During the County imposed extended use period at least 30 units must be occupied by households at, or below, 80% of the area median family income, identified by household size, in effect at that time; and, pay no more than 30% of the household's income toward rent and utilities.

See the Units Information & Gross Revenue Potential attachment for a more detailed breakdown of units by bedroom size, income restriction and contract rent.

#### *8.B Market Units/Rents*

There are five market rate units in this project. One will be occupied by the property manager and provided rent free as part of their compensation. Two 1-bedroom units will rent at \$1,250 per month and two 2-bedroom units will rent at \$1,600 per month.

#### *8.C Trending*

Rents are projected at a 2% inflation rate. Expenses are projected at a 3% inflation rate. Taxes and insurance are projected at a 4% inflation rate. Management fee is projected at a 6% inflation rate. The DCR is 1.36 in year 1 and trends to 1.31 in year 20. Over the 20-year HOME Program affordability period, cash flow remains positive.

#### *8.D Vacancy Rate*

For underwriting purposes, the property is underwritten at a 6% total rent vacancy loss which is consistent with IHDA requirements.

#### *8.E Other Income*

Alden anticipates receiving approximately \$6,696 annually from the on-site laundry facilities located on each floor.

#### *8.F Operating Expenses*

Alden will pay for the hot water electric, water, sewer, and trash collection. Tenants will cover the electric lighting, electric cooking, and electric heating utilities. Alden will provide property management. See the Annual Operating Budget attachment of the underwriting template for a breakdown of underwritten operating expense projections.

#### *8.G. Real Estate Taxes*

Alden anticipates paying \$78,077 of real estate taxes in year one, with trending increases of 4% annually.

#### *8.H. Proposed Reserve Deposit*

Proposed replacement reserve deposit is \$350/unit/year, totaling \$21,700 annually, with inflation projected at 3% annually. No interest is projected on the reserves balance. This produces positive capital reserves through year 20.

#### *8.I. Other Proposed Reserves*

The property is not expected to have any other operating reserves.

#### *8.J Resulting Net Operating Income (NOI) for Debt Coverage Ratio (DCR)*

The proposed unit mix at proposed rents; estimated rent loss; and underwritten expenses, and with the proposed reserve deposit, demonstrates that this project will produce stabilized Net Operating Income (NOI) of approximately \$290,421 in year one. After payment of debt service, cash flow is projected at \$77,284 in year one. This amount will be used to pay \$57,963 of the deferred developer fee. The deferred developer fee is projected to be fully paid in year 9. Cash flow remains positive through year 20.

### **9. Additional Considerations**

#### *9.a HOME Repayment*

The \$5,250,000 of HOME funds invested into this project will be in the form of a 40-year loan at 0% interest. Alden will pay \$36,000 annually with the full amount of the principal and interest due as a balloon payment at the 40-year anniversary date of the project completion in HUD's Integrated Disbursement and Information System (IDIS). If any portion of the project is sold, transferred, or if the property is no longer used for the purposes stated in the HOME Agreement during the 20-year HOME affordability period, Alden will be required to pay the full amount of the principal of the loan. During the additional County imposed 20-year extended use period, at least 30 of the 62 units must be occupied by households at, or below 80% of the area median family income, identified by household size, in effect at that time; and, pay no more than 30% of the household's income toward rent and utilities.

### **10. Conclusion**

The proposed project meets HOME Program requirements and objectives of the County's Five-Year Consolidated Plan and has a favorable risk profile. CDC staff recommend the project loan be approved for \$5,250,000.00 in HOME funds.

### **11. Attachments**

- 0) HOME Rental Compliance Checks
- 1) HOME Rental Production Application
- 2) Utilities & Rent Limits
- 3) Unit Information & Gross Revenue Potential
- 4) Annual Operating Budget
- 5) Operating Cash Flow Projection
- 6) Development Budget
- 7) Construction Budget/Costs
- 8) Sources & Uses Summary
- 9) Capital Needs Assessment