Nancy, it is a longer answer than we’ve summarized below. The bottom line is exactly what you suggest: RR deposits are insufficient to cover the property’s long term capital needs. If the goal is 15 years and out, an owner can just let these capital projects go and sell to a resyndicator. These reserves are seemingly structured for that “15 year and sold” model.

1. Deals underwritten 12-15 years ago were generally underwritten with reserve deposits of $200/unit/year. For example, in the case of our 160-unit Savannah Cove senior property in Tarpon Springs, that amounted to deposits of $32,000/year.

2. While there is limited need to utilize reserves in the first 4-5 years of operations, thereafter the property experiences replacement needs for carpets/flooring and appliances. Again, most older properties were constructed with carpet, rather than the more recent use of tile or other hard surface flooring with a much longer life. And appliances – even refrigerators and stoves - simply don’t have the extensive useful life they once had.

3. In order to adequately maintain the building envelope, we generally need to caulk and paint the exterior of the buildings every 7-8 years. At a cost of $150,000+, that represents a significant portion of the annual reserve deposits for that period, without factoring in flooring, appliance and other replacements.

4. Other significant items that are generally drawn from the replacement reserves include pool resurfacing and parking lot seal coating and striping. And this assumes no latent construction defects (e.g. failure of shower tile surrounds, window flashing) which often don’t appear within the short warranty period).

Refinancing 1st mortgage debt at 10-15 years require either substantial renovation budgets or large increases to RR deposits, to satisfy lender requirements. This lender must reserve for the more costly period of years 16-30 (or longer).

1. In conjunction with a refinancing, the lender requires completion of a Physical Needs Assessment, generally covering the first 10-12 years of the new loan. When refinancing in year 10-15+, those assessments will reflect the need for at least one exterior painting (and perhaps two) and by the end of that period the expectation is that roof replacements will be required (the property would be 25-30 years old by the end of the assessment period). In addition, other items also come up for replacement having reached the end of their useful lives, including HVAC condensing units (with one for each unit in the property) and kitchen and bathroom cabinets.

2. The Physical Needs Assessment will generate the funding requirements over its term, and those requirements are significant. The assessment prepared for Savannah Cove generated a need for deposits of $561/unit/year. Most affordable properties cannot afford that level of increase in deposits without recapitalization (resyndication or gap rehab subsidy). To fund that requirement without resyndication, an upfront deposit could be made to the reserve, to bring the annual deposits down to a more rational level of $300/unit/year. To reach that level for Savannah Cove, an up-front deposit of $600,000 is required. See attached spreadsheet with the projected needs.
3. At present interest rates (although they are rising) this up-front deposit can be funded with additional loan proceeds while still leaving a reduction in overall debt service. This opportunity will exist as long as interest rates remain low.

4. As a property for seniors, which have lower turnover and generally a lower level of wear and tear, the needs for Savannah Cove are somewhat modest; a family property would certainly require a higher level of reserves. See spreadsheet attached for our 200-unit family property in Tampa, Cedar Forest, which would require $1,850,000 up-front (it was built in 1998).

I hope this is helpful in answering your initial questions, and always happy to discuss further with you at your convenience.

Marc

From: Nancy Muller <Nancy.Muller@floridahousing.org>
Date: March 6, 2018 at 6:20:07 PM GMT+1
To: Marc Plonskier <PlonskierM@gatehousemgt.com>
Cc: Trey Price <Trey.Price@floridahousing.org>, Marisa Button <Marisa.Button@floridahousing.org>, Laura Cox <Laura.Cox@floridahousing.org>
Subject: RE: Rule Chapter 67-48 SAIL Rule on Refinancings

Dear Marc,

Thanks for bringing this up, it’s a thoughtful idea. It would be helpful to me and perhaps others on this email to understand how you think about this additional funding relative to the replacement reserves the properties already have and should be using. Can you help us understand what we should be expecting in this regard from a well-maintained property that has had good occupancies?

Is it that the RRs only go so far and don’t pay for the bigger, longer term capital expenditures? I’m sure we will have more questions, but wanted to get your take on this to start.

Thanks again,

Nancy

Nancy Muller
Florida Housing Finance Corporation
850.488.4197
www.floridahousing.org

From: Marc Plonskier <PlonskierM@gatehousemgt.com>
Sent: Wednesday, February 28, 2018 4:31 PM
To: Marisa Button <Marisa.Button@floridahousing.org>
Cc: Trey Price <Trey.Price@floridahousing.org>, Nancy Muller <Nancy.Muller@floridahousing.org>
Subject: Rule Chapter 67-48 SAIL Rule on Refinancings

Dear Ms. Button,

Thank you for this opportunity to comment on your proposed rulemaking. This comment relates to older SAIL projects which require some capital investment, but don’t require significant new acq/rehab funding to remain viable and sustainable.
Many properties in our portfolio are at/about 15 years old, and are well-maintained. We, and our investors, would strongly prefer to continue to own them for the long term. Obviously, we know the properties extremely well, and are best suited to continue to operate them as before.

Florida Housing has created a strong preservation program that is well-suited for projects requiring substantial rehab ($20,000+ per unit). However, many projects, like ours, only require a small amount of work, perhaps closer to $5,000 – $10,000 per unit. In these cases, simply new roofs, exterior painting and new cabinets/countertops may be all that is needed. These projects could continue in the same ownership if they are able to be refinanced and those proceeds used for the minor rehab. Over 40,000 units in Florida Housing’s portfolio are age 15-29 years old, and many are likely to be well-maintained.

Current Rule - Currently, the SAIL rule penalizes and discourages this structure. Specifically, it states: “The Board shall deny requests to increase the amount of any superior mortgage, unless... a proportionate amount of the increase in the superior mortgage is used to reduce the outstanding SAIL loan balance.”

The Problem - We have previously been forced to weigh the cost of this paydown against the benefits of an outright sale – in those cases, we decided to sell to buyers who have then applied for new Florida Housing funding to do a substantial rehab, which was arguably not really necessary.

The Proposed Rule Change - Allowing a first mortgage refinance to include funds (up to a maximum of $10,000/unit) to be used solely for capital improvements/reserves per an approved Credit Underwriting Report (i.e., no “cash out”) would extend the useful life of these well-maintained projects. It would reduce the drain on precious FHFC resources for projects that don’t need a lot. And the same DSCR and other limits which are presently in the Rule could remain, to insure that the property is not highly leveraged.

Keeping consistent proven ownership and requiring no additional Florida Housing subsidy makes this an attractive way to secure the long-term stability of the property.

Sincerely,

Marc S. Plonskier, President
The Gatehouse Group
120 Forbes Blvd.
Mansfield, MA  02048
(508) 337-2525
Plonskierm@gatehousemgt.com