

How to build a new housing development in your community

Dane County Housing Summit 2019




Speakers

Nicole Solheim, Director of Development, Gorman & Company

Shreedhar Ranabhat, Commercial Lending Officer WHEDA

Marge Novak, EVP-Capital Group, Cinnaire

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- Nicole Solheim
 - Director of Development
 - Gorman & Company

GORMAN
& COMPANY

Housing Development Case Study

How to get from this:



To this:






The Developer Road Show

- **Reach out to communities**
 - Staff (planning, economic development), Elected Officials, and other stakeholders (Chamber of Commerce, Housing Committees, etc.)
- **Tune in to local politics, planning efforts**

Workforce Housing
What is it? Who needs it?
Current Initiatives

Sun Prairie Chamber of Commerce
April 20, 2017



Olivia Parry, Sr. Planner
Dane County Planning and Development
Dept.

Scott Kugler, Community Development
Director, City of Sun Prairie



**CENTRAL MAIN
STREET CORRIDOR
REDEVELOPMENT PLAN**

CITY OF SUN PRAIRIE
MAY 2018

 
BUILD
vierbicher
planning | architecture | interior

Site Selection

- WHEDA Qualified Allocation Plan (QAP)
 - Lays out scoring criteria for competitive applications
 - Key factors:
 - Census tract (QCT)
 - Walkscore
 - Nearby Amenities: Bus, School/Senior Center, Library, Park, Job Training, Health Clinic
 - “Areas of Economic Opportunity”: School District, Median Income, Unemployment, High Need, Rent Burden
 - Access to additional funding
- Ideal site should score competitively and address community development goal

Site Selection

1141 W Main St, Sun Prairie

- Great walkscore
- Amenities
- No bus route
- Zones:
 - Median income
 - Unemployment
 - School District
- In a TIF district
- Priority site in Redevelopment Plan



Next Steps and Due Diligence

- Conceptual plans and financial modeling
 - Coordination with architect, contractor, management
- Site control
- Talk to City staff about next steps (zoning process, TIF)
- Talk to local alder
- Due diligence: title, environmental, market study
- Identify partners, if applicable
- Engage engineers, other consultants
- Apply for funding – WHEDA + other sources

Public Meetings

- **Zoning approval:**

- May require multiple steps and meetings with Plan Commission, Council – including public hearings
- Adjustments to plans based on feedback
- Timeframe: Approx. 6 months

- **Financing approval:**

- TIF, other sources
- CDA and Council meetings

- **Strategy:**

- Gather local support
- Timing - Need approvals in advance of WHEDA application

HOUSING TAX CREDITS

- Shreedhar Ranabhat
- Commercial Lending Officer
- WHEDA

What is Housing Tax Credit?

- Created in 1986 within Section 42 of the Internal Revenue Code to encourage private, non-individual investment in affordable rental housing
 - The HUD Section 8 program stopped creating new affordable units in the early-1980s
- The tax credit is a dollar for dollar offset to federal tax liability
 - Generally, the credit is received over 10-year period, but affordability requirements extend for 30 years
- Good example of successful public-private partnership

Section 42: WHEDA's Role

- **Create the Qualified Allocation Plan (QAP)**
 - Typically, we create a two-year QAP
 - Requires approval by WHEDA's Board and the Governor
- **Allocate Tax Credits**
 - Approximately \$15.7 million per year of Federal "Competitive" HTC
 - Approximately \$7 million Federal and State "Competitive" HTCs
- **Monitor developments for compliance**
 - Report violations to IRS

QAP Objectives

- 1. Increase the supply of very low income housing**
- 2. Increase the supply of affordable housing with services, including veterans**
- 3. Increase the supply of affordable housing for seniors**
- 4. Encourage housing development in areas of economic Opportunity**
- 5. Coordinate housing development with community & economic development plans**
- 6. Efficient use of LIHTCs and reasonable cost containment**
- 7. Support the housing goals and objectives stated in the State of Wisconsin Consolidated Plan and the Plan to End Homelessness in Wisconsin**

Types of HTCs

- **9% (a/k/a “competitive”)**
 - **Wisconsin’s federal allocation is ~ \$15.7 million per year**
 - **Scarce resource – very competitive**
 - **Demand typically exceeds supply by about 3:1**
 - **One allocation cycle per year**
- **4% (a/k/a “non-competitive”)**
 - **Tied to state’s tax-exempt bond volume cap**
 - **Year-round allocation cycle**

Types of HTC's – WI State HTC

- **On March 28, 2018, Wisconsin 2017 Act 176 was signed, which created the Wisconsin Housing Tax Credit program within Section 234.45 of the Wisconsin Statutes**
- **The State Housing Tax Credit was designed to be a complement to the federal 4% Low Income Housing Tax Credit, and follows most rules that are currently in place for the federal housing tax credit program**
- **4% State Housing Tax Credits are awarded competitively, through a once-per-year cycle coinciding with the federal 9% application round**

Housing Tax Credit Requirements

- **Properties receiving Housing Tax Credits must agree to set-aside a minimum of:**
 - 20% of units for households at/below 50% of County Median Income (CMI)
 - 40% of units for households at/below 60% of CMI
- **In reality, deeper affordability is achieved than mandated by Section 42 due to the competitiveness and point scoring elements**
 - In a typically 9% property, more than half of units are set-aside for households at/below 50% of CMI – with 15-20% of units set-aside for 30% CMI households and another 10-15% market rate units

Recent Housing Tax Credit Activity

- **In a typical year, WHEDA will make 20-25 9% awards, which fully utilizes all of annual per-capita credit allocation**
 - 50-60 applications are received in a normal 9% round
- **For the 2019 State program, WHEDA received 22 applications - and made awards on 11**

LIHTC Application Review Process

- **Applications must meet a series of threshold tests before scores are assigned**
- **Those meeting the thresholds are scored against other similar applications in their 'set-aside'**
- **Credit is divided into five set-asides (categories)**
 - **Non-Profit**
 - **Supportive Housing**
 - **Rural**
 - **Preservation**
 - **General**

LIHTC Application Threshold Components

- **Site Control**
- **Design Threshold Requirements**
- **Market Study**
- **Financial Feasibility**
- **Reasonable Development Budget**
- **Acquisition/Rehab Properties**
 - **Appraisal**
 - **Capital Needs Assessment**
 - **'Ten Year Rule' documentation**
 - **Approval for modification of operating assistance contracts or outstanding debt**

LIHTC Scoring Components

Scoring Category	Max Points
1. Lower-Income Areas	5
2. Energy Efficiency and Sustainability	32
3. Mixed-Income Incentive	12
4. Serves Large Families (Three-bedroom or larger units)	5
5. Serves Lowest-Income Residents	60
6. Supportive Housing	20
7. Rehab/Neighborhood Stabilization	25
8. Universal Design	18
9. Financial Leverage	40
10. Eventual Tenant Ownership	3
11. Project Team	12
12. Readiness to Proceed	12
13. Areas of Economic Opportunity	28
14. Rural Areas Without Recent HTC Awards	5
15. Location Points (only for 4% applications)	35
TOTAL	312

LIHTC Scoring Components – Ranked by Points

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- Marge Novak
- Executive Vice President
- Cinnaire



Syndicator Role (Due Diligence)

- “Link” between developer (Gorman) and Investor
- Syndicators “purchase” the Tax Credits on behalf of Investors
- Conduct Due Diligence:
 - Originators conduct initial review of site, proforma, developer
 - Provide preliminary Letter of Interest for LIHTC Application
 - Respond to RFP, “Bid” on projects once Credits are awarded
 - Underwriting Team performs deep review of real estate, developer experience and financials, market, long-term operating proforma, etc.
 - Closing – Investor(s) become part of the ownership of the development (investor=limited partners, developer=general partner).
 - Long-Term asset management & compliance/reporting to Investors (15+years)

Syndicator Role (Raise Equity)

- Convert Tax Credits to Equity for the development
- Tax Credit Equity is similar to a down payment that a homebuyer would provide – not a loan, not paid back
- Tax Credit Equity per project can cover 50% to 75% of the total development costs – substantial source of funding
- Higher Equity → Less Debt → Lower Rent Levels
- Developments are affordable to workers, families, seniors, veterans, homeless, persons with special needs, etc.

Syndicator Role (Find Investors)

- Developers generally cannot utilize Tax Credits themselves
- Tax Credits are “sold” to Investors
- Investors = federal income tax liability and CRA requirements
- Types of investors:
 - Banks – national, regional, community
 - Insurance companies – life, property & casualty, health
 - Fannie Mae and Freddie Mac

Affordable Housing – Tax Credits

- Complicated financing structure
- Extremely valuable source— part of most affordable housing
- Created in 1986 Tax Reform Act – more than 30 years
- Most successful housing program in US history
- Significant level of oversight – IRS, State HFA, Syndicators
- Lowest real estate foreclosure rate – less than 1% historically
- The Housing Tax Credit Program benefits from strong political support by both parties – very popular in Congress
- The quality of Tax Credit properties matches market rate

Eleven41 Main: Financing stack

- **WHEDA LIHTC:** 9% Competitive application due annually
- **Debt:**
 - First Mortgage
 - TIF Loan (Developer financed TIF)
 - Capital Magnet Fund subordinate loan
- **Other Soft Financing Sources:**
 - Dane County CDBG: for acquisition of blighted property
 - Dane County Affordable Housing Funds
 - Federal Home Loan Bank Affordable Housing Program (AHP)
 - Project-Based Housing Vouchers from Dane Co Housing Authority

Financing

Sources		Uses	
LIHTC Equity	7,328,000	Acquisition	970,000
First Mortgage	4,077,000	Construction Costs	9,450,000
TIF Loan	848,000	Contingency	473,000
CMF Loan	250,000	Soft Costs	3,125,000
CDBG	450,000	Reserves	470,000
Dane County AHF	300,000		
FHLB AHP	750,000		
Deferred Developer Fee	485,000		
TOTAL	\$14,488,000	TOTAL	\$14,488,000

Timeline

- **Fall 2016:** Engage with City
- **April 2017:** Site control
- **May 2017:** Initial zoning submittal
- **Nov 2017:** Zoning and TIF approval
- **Dec 2017:** Submit WHEDA app
- **Feb 2018:** WHEDA awards
- **June 2018:** AHP, Dane Co AHF apps; detailed plan submittal
- **Sept 2018:** Commence closing calls with investor
- **Nov 2018:** Financing approvals & construction bidding
- **Dec 2018:** Closing
- **April 2020:** Construction Completion



Questions?