WORKFORCE HOUSING

TODD MEIERHENRY

AFFORDABLE HOUSING

Housing units are considered affordable to people earning less than their area's median income (AMI) – where housing payments comprise no more than 30% of income.

WORKFORCE HOUSING

A subset of affordable housing is known as "workforce" housing, defined by the Urban Land Institute (ULI) as affordable to households earning 60% to 100% of Area's Median Income.

HOUSING PAYMENTS - MONTHLY GROSS RENT

- Monthly gross rent costs come from the following questions:
- Contract rent
- Utilities – Electricity, Gas, Water and Sewer, and Other Utilities

HOUSING PAYMENTS - MONTHLY OWNER COSTS

- Monthly owner costs come from questions on the following:
  - Mortgage
  - Second mortgage and/or home equity loans
  - Real estate taxes
  - Homeowners insurance
  - Condo fee (if applicable)
  - Mobile home cost (if applicable)
  - Utilities – Electricity, Gas, Water and Sewer, and Other Utilities

2016 State Income Limits - HUD	WORKFORCE HOUSING		AFFORDABLE HOUSING	
Household Size	30% of 60% of Median Family Income	Monthly Gross Rent	30% of Median Family Income	Monthly Gross Rent
1	$ 7,980.00	$ 665.00	$ 13,300.00	$ 1,108.33
2	$ 9,060.00	$ 755.00	$ 15,100.00	$ 1,258.33
3	$ 10,200.00	$ 850.00	$ 17,000.00	$ 1,416.67
4	$ 11,310.00	$ 942.50	$ 18,850.00	$ 1,570.83
5	$ 12,240.00	$ 1,020.00	$ 20,400.00	$ 1,700.00
6	$ 13,140.00	$ 1,095.00	$ 21,900.00	$ 1,825.00
7	$ 14,040.00	$ 1,170.00	$ 23,400.00	$ 1,950.00
8	$ 14,940.00	$ 1,245.00	$ 24,900.00	$ 2,075.00

Affordable Housing: Additional Units and Financing Needed in Many Communities

38% said needs for development or rehab of multifamily housing are generally unmet.

53% said needs for affordable single family homes are generally unmet.

56% said needs for affordable rental housing are generally unmet.

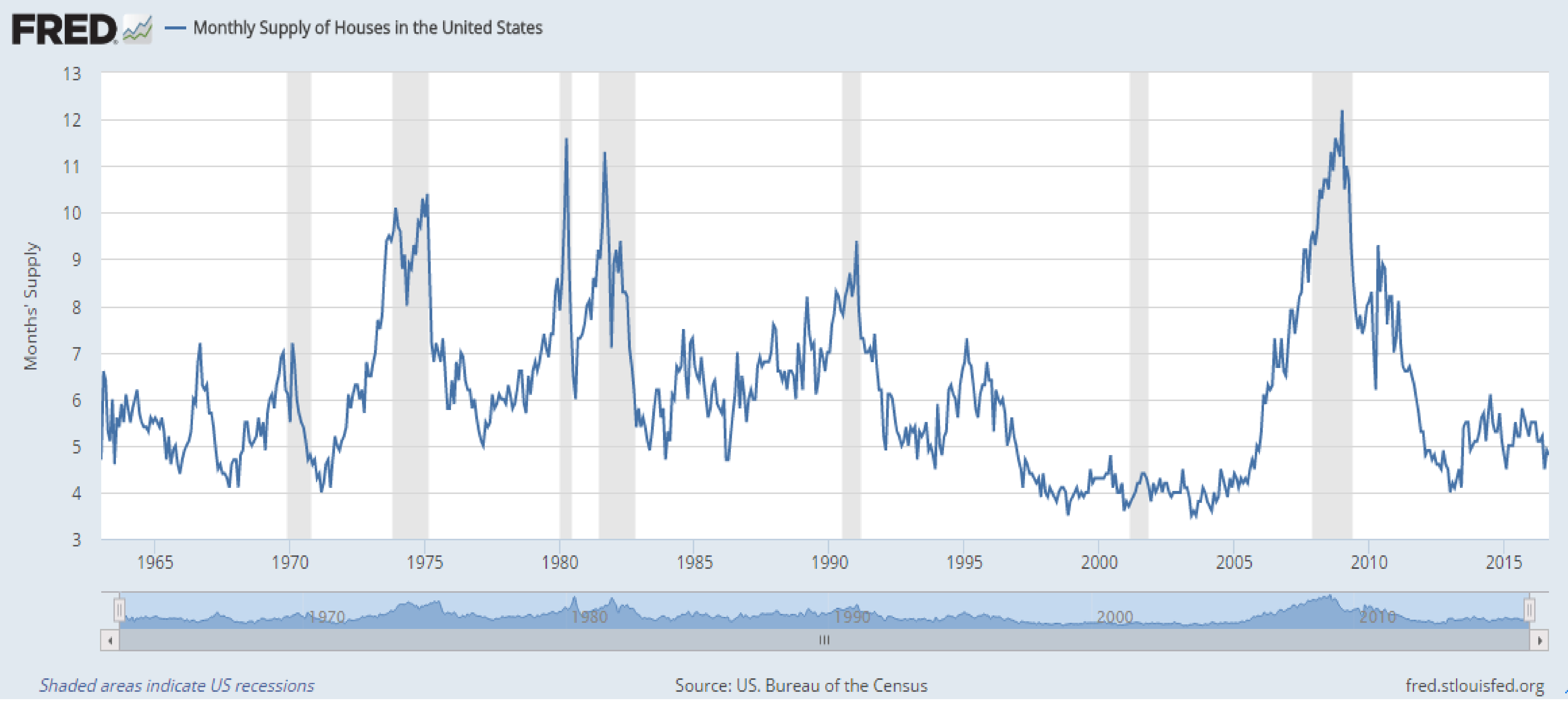
NINTH DISTRICT **Insight** 2016

SURVEY RESULTS AT A GLANCE

Y		
YEAR STRUCTURE BUILT		
Total housing units	369,186	369,186
Built 2010 or later	6,290	1.70%
Built 2000 to 2009	56,722	15.40%
Built 1990 to 1999	48,368	13.10%
Built 1980 to 1989	37,526	10.20%
Built 1970 to 1979	63,377	17.20%
Built 1960 to 1969	33,022	8.90%
Built 1950 to 1959	34,335	9.30%
Built 1940 to 1949	19,718	5.30%
Built 1939 or earlier	69,828	18.90%

59.60% of housing units are 37 years old or older and may have lead based paint and asbestos.

MONTHLY SUPPLY OF HOUSING



THREE FACTORS
AFFECTING WORKFORCE HOUSING

1. HVCRE
2. Labor
3. Millennials

FIVE WORDS DEVELOPERS DRED

- High
- Volatility
- Commercial
- Real
- Estate

HIGH VOLATILITY COMMERCIAL REAL ESTATE RULE

The HVCRE regulation within the Basel III capital requirements, effective as of January 1, 2015, mandates that, in order to be exempt from an HVCRE designation, borrowers who originate commercial acquisition, development and construction (ADC) loans must meet a 15% equity requirement, and the leverage on such loans cannot exceed 80% of the estimated completed value of the project. If these conditions are not met, the loans will be subject to a 150% risk weight requirement -- an increase from the previous 100% requirement.

Additionally, the rule dictates loans are required to stay designated as HVCRE until the credit facility is converted to permanent financing, sold or paid in full.

OLD RULE

Loan To Value

- New Land
- Free and Clear Land

Assign 100% to
Risk weight

The greater the amount of risky **assets** a bank has, the higher the capital adequacy ratio and thus the higher the bank's capital requirement.

NEW RULE

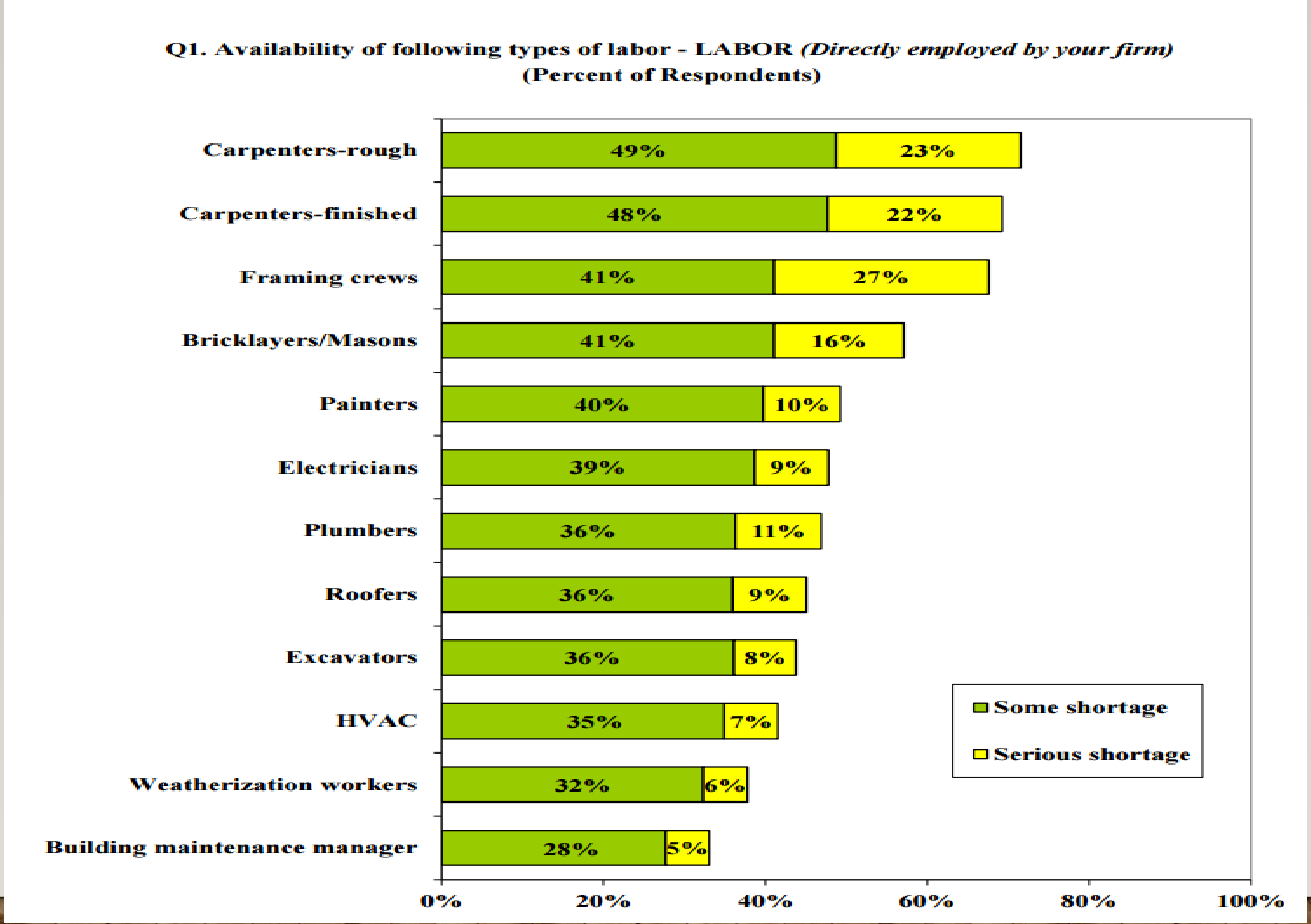
80% Loan to Value

- New Land
- 15% Cash

If not met
Assign 150% to
Risk weight

2.9%
Unemployment Rate

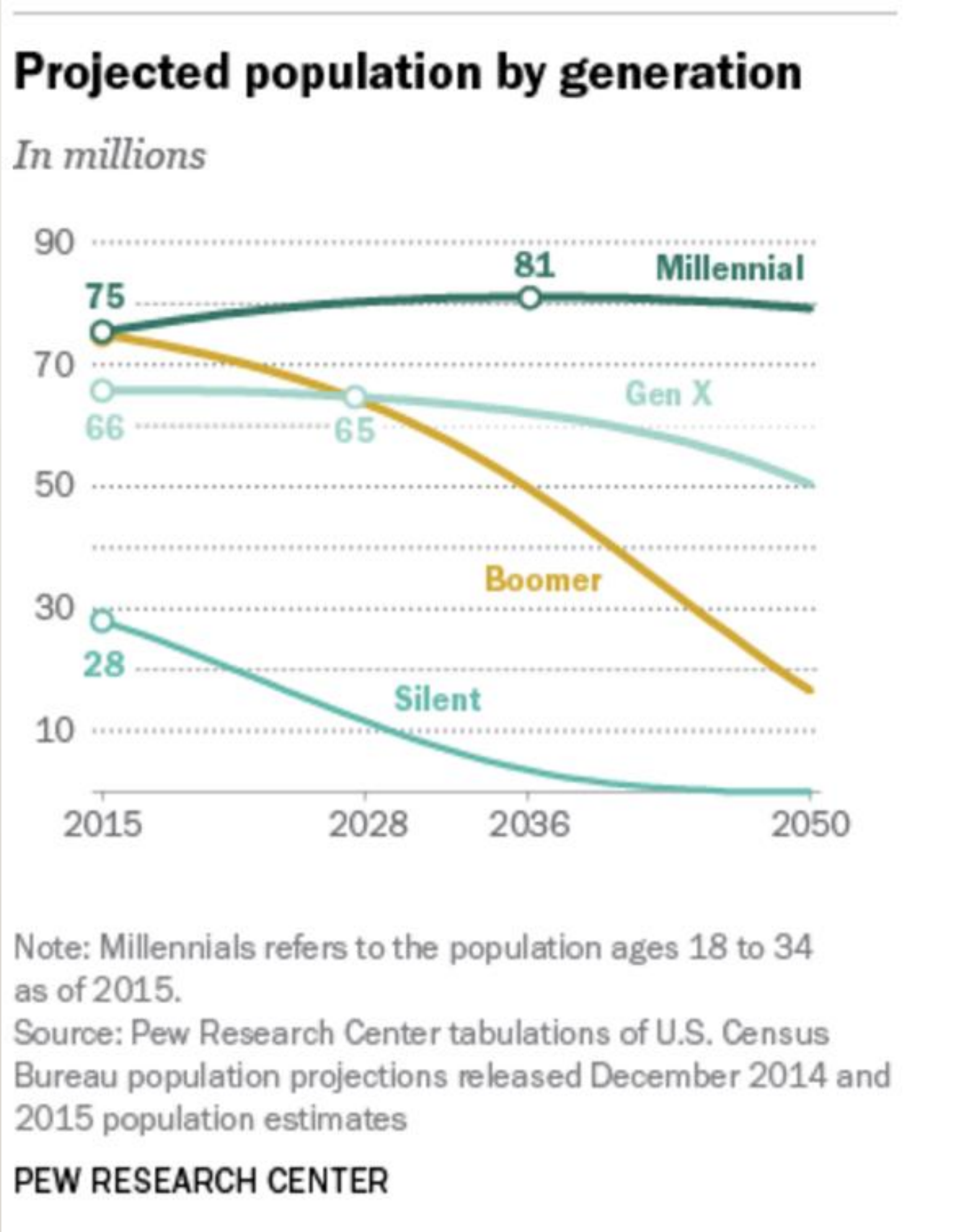
"Means 1% is working that shouldn't be."



National Association of Home Builders June 2016 Housing Market Index: Special Questions on Labor and Subcontractors' Availability

Millennials
2016
19 to 35 year old's

Millennial Generation is the largest Generation



By 2020

46% of US workers

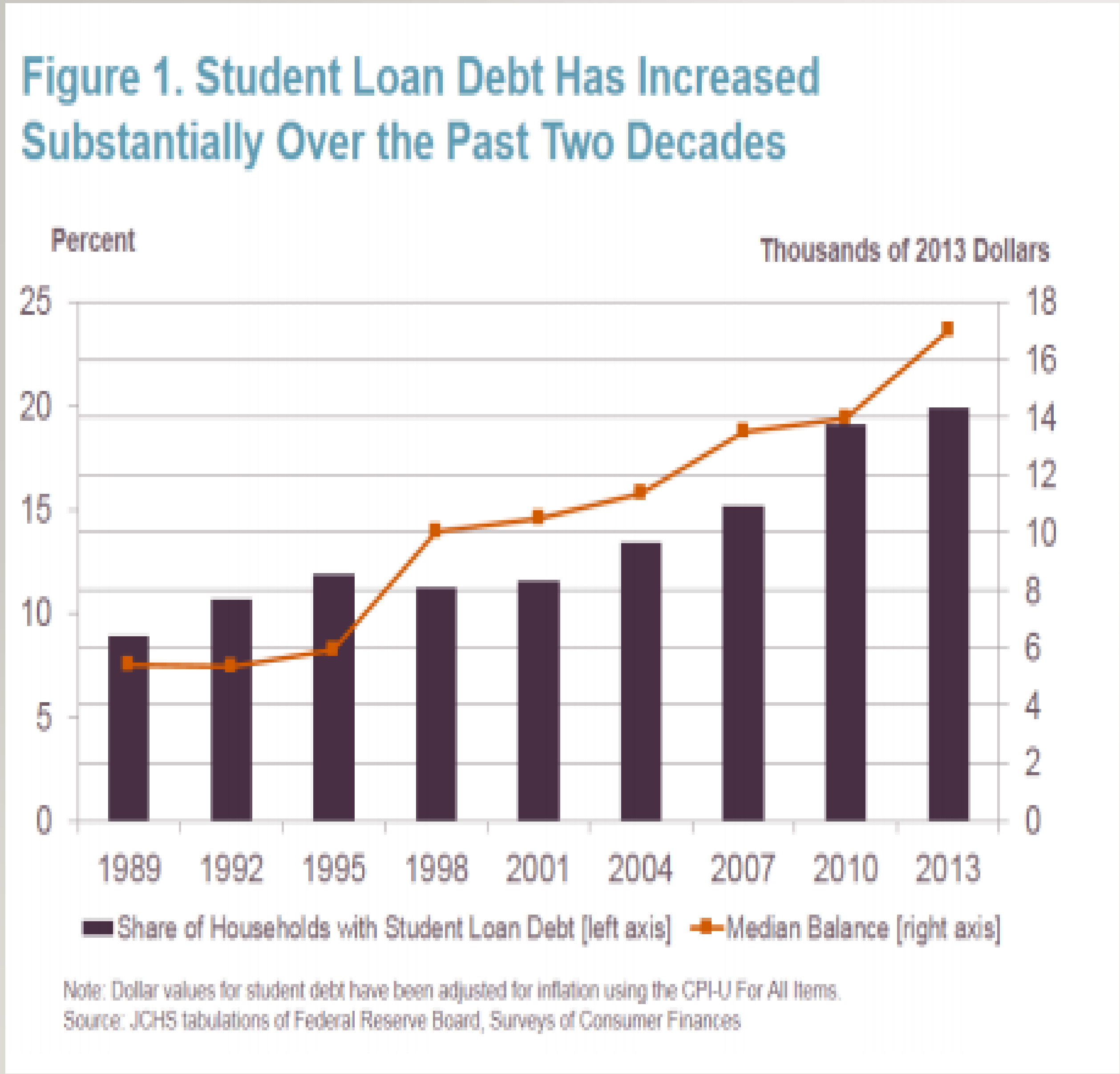
will be Millennials

Millennials Rent

Nationwide in the second quarter of this year, the home ownership rate fell to 62.9 %, not seasonally adjusted, which is the same as it was in 1965, when the U.S. Census started tracking the metric.

<u>Down 6.3 %</u> from 69.2 % in the mid 2000s.

- SD State Average 2016 Student has $29,365 in student loan debt
- Average Monthly Payment is $351
- Average Cell phone bill $100
- Average internet bill $50

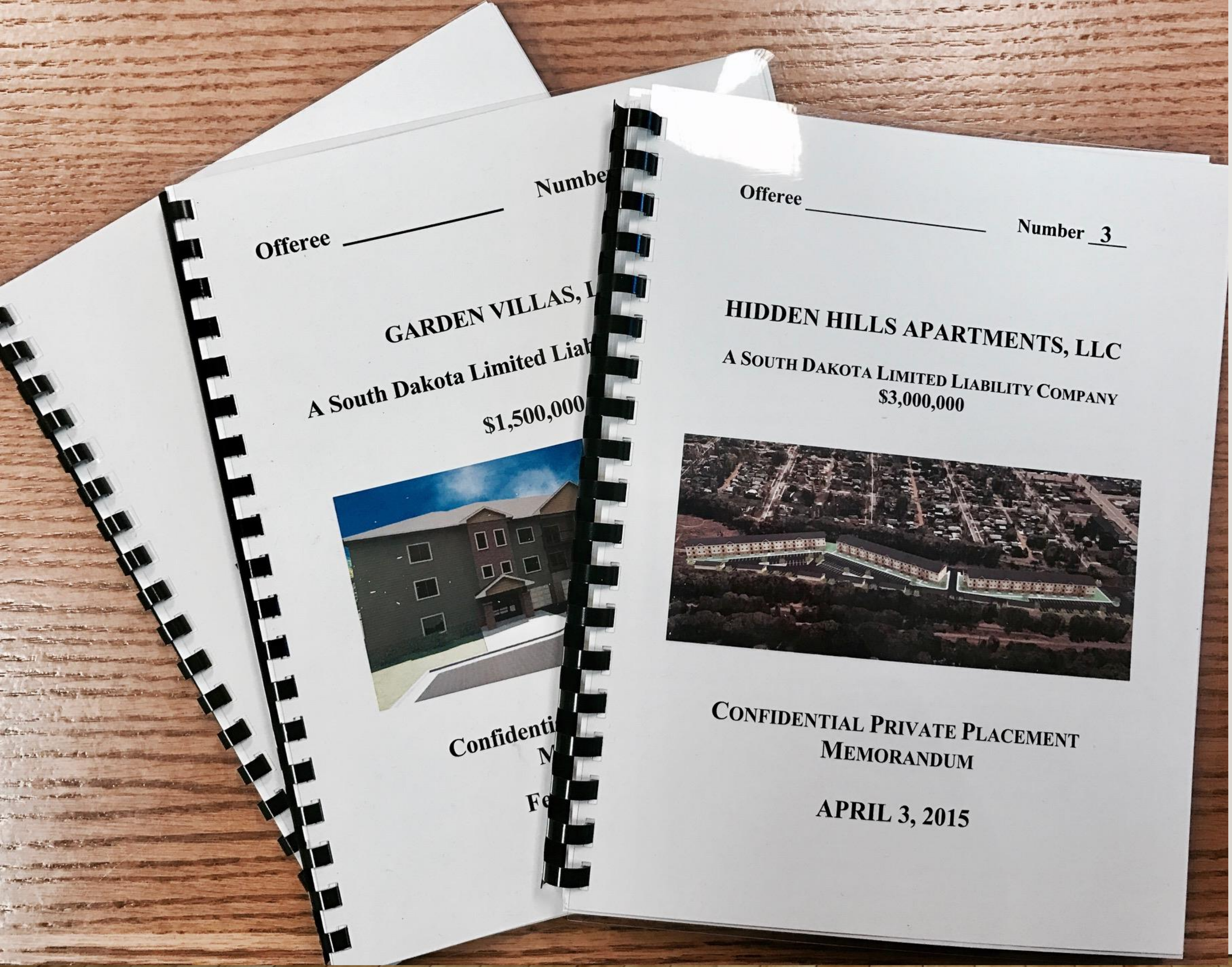


DOWN PAYMENT PROBLEM

- A 2014 survey conducted by the National Association of Realtors found that among the 23 percent of first-time homebuyers who reported difficulties with saving for a down payment, over half (57 percent) cited student loans as a factor.

Sources of Capital

- Private
- Public
- Private-Public Partnership



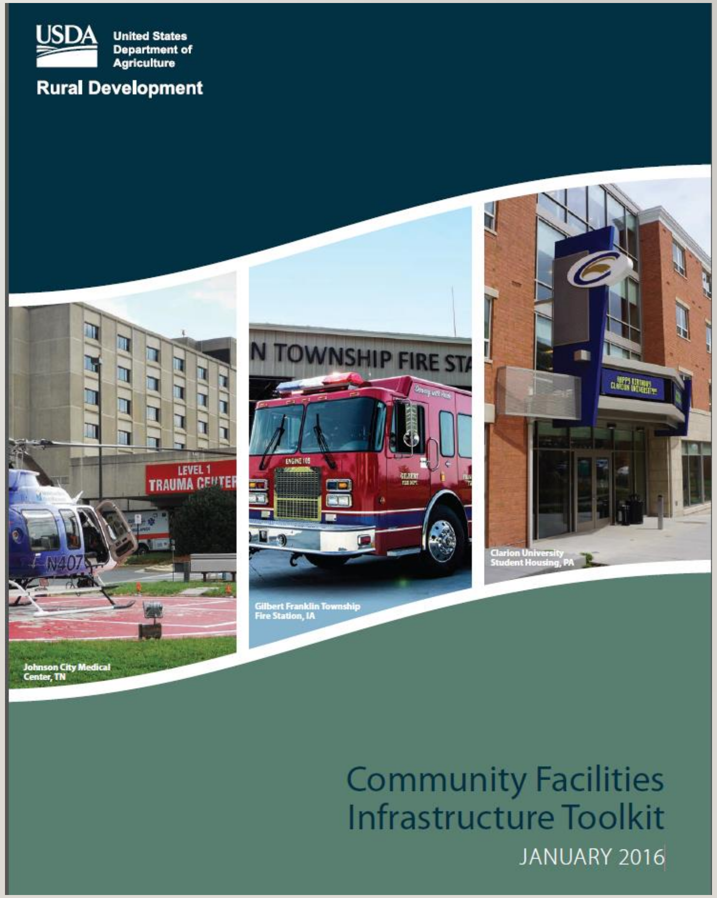
Private:

1. Have the Capital or
2. Raise Capital through private placements

*Remember State and Federal Security Laws may apply.

WHAT TOOLS ARE OUT THERE TO ASSIST IN THE DEVELOPMENT OF WORKFORCE HOUSING?

A good roadmap may be found in the USDA Rural Development Community Facilities Infrastructure Toolkit - January 2016



Bonds: Governmental Bonds and Private Activity Bonds provide low-rate financing through a federal tax exemption on interest. Specific statutory and procedural requirements need to be met to issue bonds and ensure the tax-exempt benefits.

Tax Increment Finance (TIF): A TIF district is a mechanism for capturing the future tax benefits or real estate improvements in order to pay for the present cost of infrastructure improvements in tax increment areas.

Special Assessment Districts: Property owners within a Special Assessment District pay special assessments assessed by a municipality, and the funds are used to finance improvements or pay back special assessment bonds.

Tax Credits: Tax credits allow businesses and investors to claim a credit for committing resources to a project or business. Tax credits can be used to provide an increased rate of return for investors, to reduce interest rates on debt, and to provide repayment for investors in place of cash. Development-minded federal programs are listed below, and many states have companion credits available.

• *Historic Rehabilitation Tax Credits*—provides credits for investments in the rehabilitation of historical or recognized historic buildings.

• *Low-Income Housing Tax Credits*—provides credits for investments in affordable, multi-family housing projects.

• *New Markets Tax Credits*—provides credits for investments in projects in low-income census tracts.

Federal economic development programs: There are over 150 federal programs supporting economic development finance.1 Many programs provide funding directly to local governments, while others provide funding to a business or intermediary. A selection of programs potentially available to finance community facilities are described below.

- *U.S. Department of Agriculture, Community Facilities*—provides affordable financing to develop essential community facilities in rural areas.
- *U.S. Department of Agriculture, Rural Energy for America Program*—provides financing to agricultural producers and small businesses for clean energy systems.
- *U.S. Department of Housing & Urban Development, Community Development Block Grants*—provides resources to address a wide range of unique community development, including housing, infrastructure, and business development.
- *U.S. Department of Transportation, TIGER Grants*— provides a unique opportunity for federal investment in transformative transportation projects.
- *U.S. Environmental Protection Agency, Brownfields Cleanup Grants*—provides funding for cleanup activities at contaminated sites.
- *U.S. Small Business Administration, 7a Loan Program*— Supports financing for new businesses or to assist the operation, or expansion of an existing business.

1 For more information on federal economic development finance programs, visit the Council of Development Finance Agency (CDFA) Federal Financing Clearinghouse at www.cdfa.net.

- South Dakota Housing Development Authority
  - Properties with less than 24 units utilize the HOME Program and Housing Opportunity Fund programs, and larger projects often use Housing Tax Credits, Community Housing Development or Bond Financing. Also the governer's house program.
- Housing & Redevelopment Commissions
  - Commission owned 4 to 8-plexes for low and moderate income families. Can also develop lots and the infrastructure for resale.
- Tax Increment Districts (Municipal and County)
  - Pay for infrastructure or direct grants to developers.
- Cities
  - Sales Tax bonds
  - General Obligation Bonds
  - Special Assessment Bonds
  - Utility Revenue Bonds

Questions & Discussion