Movin' Out: Developing Affordable Housing In Wisconsin

MOMENTUM WEST HOUSING CONFERENCE

AUGUST 15, 2019

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Movin’ Out’s Mission

Movin' Out, in partnership with people with disabilities and their allies, creates and sustains community-integrated, safe, affordable housing solutions.

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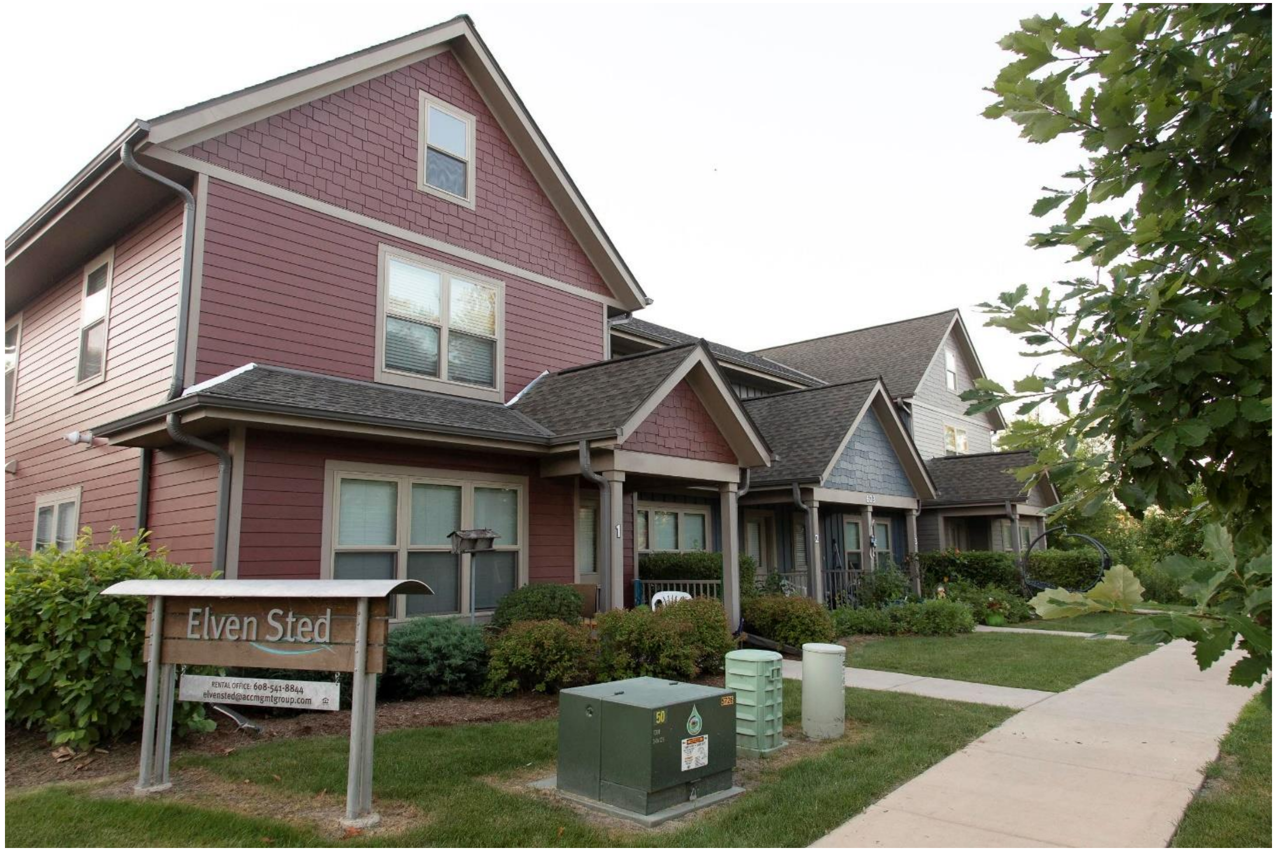
Who is Movin’ Out?

- Movin’ Out is a state-wide nonprofit housing organization. Our mission is to provide affordable housing options to households that include a family member with a permanent disability and military veterans.
- Movin’ Out assists households with both home ownership and affordable rental opportunities.
- Movin’ Out provides specialized housing counseling to assist households to create and carry out a housing plan.
- Movin’ Out owns and operates over 250 units of community-integrated, affordable, barrier free rental housing. We have developed 18 community development projects and are owners or co-owners of over 1,000 multi-family units.
- Long term ownership – Movin’ Out is committed to preserving affordability for 30+ years.

Movin' Out:
Development Experience – Wisconsin Dells

Movin' Out:
Development Experience – Stoughton



Movin’ Out:
Partner Communities

- Wisconsin Dells
- Stoughton
- Waterloo
- Watertown
- Waunakee
- Madison
- Brown Deer
- Oconomowoc
- And more….

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Low Income Housing Tax Credits Overview

- A housing subsidy program for low-income rental and workforce housing.
- Created within Section 42 of the Internal Revenue Code.
- A federal income tax credit that is allocated by each state's housing finance agency through competitive processes.
- Each state receives an amount of credits annually in tax credits to allocate to projects.
- Rental units with residents earning no more than 60% of area median income.
- Investors purchase the tax credits and provide direct equity to the development.
- Income restrictions apply based on 30-60% of area median income. Maximum rents are then established to ensure units are affordable.
- *Affordable rents allow local workers to live in the community they work.*

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Low Income Housing Tax Credits
Income & Rent Limits – Non Metro Counties

INCOME LIMITS	1 Person	2 People	3 People	4 People	5 People
30% CMI	$14,370 ($6.91/hr)	$16,440 ($7.90/hr)	$18,480 ($8.89/hr)	$20,520 ($9.87/hr)	$22,170 ($10.65/hr)
50% CMI	$23,950 ($11.51/hr)	$27,400 ($13.17/hr)	$30,800 ($14.81/hr)	$34,200 ($16.44/hr)	$36,950 ($17.76/hr)
60% CMI	$28,740 ($13.81/hr)	$32,880 ($15.80/hr)	$36,960 ($17.77/hr)	$41,040 ($19.73/hr)	$44,340 ($21.32/hr)

* Hourly wage assumes full time (2,080 hrs/annually)

RENT LIMITS	1 Bedroom	2 Bedroom	3 Bedroom
30% CMI	$385	$462	$533
50% CMI	$641	$770	$889
60% CMI	$770	$924	$1,067

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Low Income Housing Tax Credits Employment – Sample Jobs

Current Job Postings – Indeed.com

Store Associate – Aldi - $13.10/hr

Hotel Front Desk – Holiday Inn Express - $10-13/hr

Surveillance Staff – St. Croix Casino - $12/hour

Resident Care Aide – Magna House - $11-13/hr

Teller – Bank First - $14/hr

Welder – Manpower - $15-18/hr

Child Care Provider – Lulabelles Learning Center - $8-10/hr

Community Supported Living Agent – LSS - $11/hr

Tire & Lube Technician – Express Employment - $13/hr

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Low Income Housing Tax Credits Overview

- 9% credit and 4% credit
  - WHEDA now has a competitive 4% state housing tax credit

- Simplified example of how LIHTC works:

***$10,000,000* Project**

9% LIHTC = 9% of project costs x 10 years x $1.00 per credit in equity = ***$9,000,000* in equity**

***$1,000,000* gap** → First Mortgage (limited due to low rents) + **other soft sources**

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Low Income Housing Tax Credits Timing – Sample 2019 Project

Assuming application in December 2019:

- Site Control/Development Agreement: October 2019
- Site Zoned: November 2019
- WHEDA Tax Credit Application: December 2019
- Award of tax credits: March 2020
- Architectural Plans: March 2020 – September 2020
- Financial Due Diligence Period: June 2020 - November 2020
- Financial Closing and Construction Start: December 2020
- Construction Completion: December 2021

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Sample Non Metro Project Development/Financing Overview

- Minimum development size → 40 units
- Average breakout of units:

30% CMI	50% CMI	60% CMI	Market
8 units (20%)	20 units (50%)	6 units (15%)	6 units (15%)

- Community room, covered parking, playground, community gardens
- Energy efficiency: Required Wisconsin Green Built Homes Certification
- Universal Design: Accessible features as required by WHEDA and Movin' Out standards
- Zoning and other financing commitments in place

Sample Non Metro Project WHEDA Scoring

- In order to be most competitive in WHEDA scoring the following assumptions are required:
  - 20% of the units are at 30% CMI – Project-Based Section 8 Vouchers can help here
  - 16% of the total units are 50% 3 BRs with private exterior entrances
  - Zoning – The project must be zoned to allow intended use by December.
  - Financial Leverage Points – This model assumes 24 points which is considered low. This is a percentage of total equity over sources. Projects artificially limit equity to be competitive.
  - Deals in the Rural Set-Aside cannot score market rate points. Most projects cannot lose the equity to include market rate in smaller communities.
- The following items are preferred and/or make the project more competitive:
  - Public transportation within ½ mile
  - WHEDA zones → completely dependent on what census tract the project is in.
  - Project located in county that hasn't received LIHTC allocation in the last 3 years.
  - Located within 2 miles (1 mile if not rural) of: school, grocery store, clinic, library, park, community college/job training. Convenience stores do not qualify for grocery points.

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Sample Non Metro Project Underwriting Assumptions

- Unit Mix Example – Maximizes WHEDA 9% Scoring

Unit Type	Number of Units	Rent
1 Bedroom – 30%	5	$294
1 Bedroom – 50%	3	$485
1 Bedroom – 60%	2	$602
2 Bedroom – 30%	3	$355
2 Bedroom – 50%	6	$586
2 Bedroom – 60%	6	$725
3 Bedroom – 50%	7	$677
3 Bedroom – 60%	8	$877

- Operating Expenses - $5,000 PUPA + $300 PUPA in Replacement Reserves
  - As of Year 13 – Negative Cash Flow as expenses overtake income due to trending (3% vs. 2%)

Sample Non Metro Project Underwriting Assumptions

- Acquisition → Assume land is donated
- Construction Costs - $145,000/unit + 5% Contingency → **$6,090,000** Hard Costs
  - $145K/unit is in range of typical construction costs - $140-175K depending on location, type of construction, and current construction climate.
- Soft Costs (includes: survey, architecture/engineering, legal, developer fee, market study, environmental reports, accounting, construction loan interest, insurance, appraisal, title, loan fees, tax credit fees, reserves) → **$1,840,973**
  - Developer fee limited at $21,000/unit on 9% deal
  - Architect fee averages 2-3% of hard costs
  - Many soft costs are driven by inclusion of equity investor who is also 99.99% owner

Sample Non Metro Project Underwriting Assumptions

- Sources
  - First Mortgage → $760,673 (WHEDA financing at 6.1% - 35 Am 35 Term)
  - Federal Home Loan Bank AHP Funds → $600,000 (maxed at $15K/affordable unit to be competitive)
  - State HOME → $500,000 (unless project is in a County/City/Consortium with separate HOME funding)
  - Tax Credit Equity → $5,159,078 (assumed $586K in annual credit at $.88 pricing)
  - Deferred Developer Fee → $59,849 (cash flow cannot pay off more in the first 15 years)
  - **GAP → $1,250,000**
    - Possible Sources:
      - Historic Credit – if building is historic
      - TIF or other City Funding
      - Other local grants
      - Add Project Based Section 8 Vouchers to increase income from the 30% units.
      - Combine sites for a larger project but must ensure each site is competitive under the WHEDA scoring.

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Sample Non Metro Project Underwriting Assumptions

- Other Options
  - 4% Federal / 4% State → almost as competitive as the 9%
    - Switching to 4% with state 4% the gap is $2,750,000.
  - 4% → Non-competitive so more first mortgage but overall less equity.
    - Switching to 4% the gap is $3,250,000.

Questions?

Megan Schuetz – Real Estate Developer

ms@movin-out.org

(608) 229-6910

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