MARKET VIEWPOINT

TWIN CITIES
MULTIFAMILY MARKET
2015-16

Dougherty Mortgage LLC

Mortgage banking for multifamily housing, senior housing, student housing, and healthcare facilities
Market Viewpoint
Twin Cities Multifamily Market 2015-16

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DISCLAIMER
This report assesses the 7-county Twin Cities multifamily market as of fourth quarter 2015 using data from numerous sources. Projects analyzed generally contain 20 or more units. Market pricing calculations reflect quoted/asking rents before concessions and exclude rents that are restricted per recorded covenants. The information contained herein has been obtained from sources deemed but not guaranteed to be reliable. Accuracy and completeness are not guaranteed. Past performance does not guarantee future results. Dougherty Mortgage LLC warns against the making of site-specific development decisions using this report’s information without a separate and full review of all available information by professional analysts.

For this report, affordable rental housing includes new, permanent units with rent and income restrictions, built by private or public entities for general-occupancy/families and targeted populations (e.g. long-term homeless, homeless youth, persons with mental health or chemical dependency challenges, persons with disabilities and other supportive housing populations). This report does not tally shelter beds or other short-term accommodations or affordable preservation units. Senior/age restricted units are not included in this report.

DATA SOURCES
Market data in this report comes from a variety of widely-available sources including project web sites, rental clearinghouse sites, industry reports, accounts from newspapers and other media outlets, leasing personnel, building managers, and other real estate professionals. Economic data was provided by the Bureau of Labor Statistics, the Bureau of Economic Analysis and the US Department of the Treasury. Population, household and employment data was provided by the Met Council and the US Census; Minnesota Geospatial Commons provided base-level GIS files for analysis. Marquette Advisors provided vacancy and rent growth data. The Twin Cities Metro Area map and LRT maps were provided by the Met Council.

PHOTO CREDITS
All photos in this report are original from Dougherty Mortgage unless otherwise noted. Cover images: iStock by Getty Images.
Since climbing out of the housing recession of 2008-2011, the 7-County* Twin Cities multifamily market has shown strong overall production in recent years. Including expected deliveries in 2016, the Twin Cities Metro Area will show expansion of between 4,500 and 5,200 new non-senior rental units per year during the four-year stretch from 2013 through 2016 (graph). This includes market-rate and affordable units. Market-rate and affordable production have both increased significantly since 2010 and have stabilized at higher levels from 2013-2016 than in prior years.

Production reached about 5,100 general-occupancy multifamily units in 2015, down just a fraction from 5,168 units delivered in 2014. Affordable rental production, which has generally been on the upswing since 2010, hit 843 new non-senior units last year, up significantly from 2014 (644 new units). Affordable units expected to deliver in 2016 will exceed 1,000 for the first time this decade, a very positive indicator for the economy overall.

Key economic measures show that a greatly-strengthened economy and low interest rates have correlated with higher levels of multifamily production in the Twin Cities. Gross Metropolitan Product (GMP) for the 13-County Twin Cities MSA has increased at a strong annual rate of 3.4% to 4.9% in each of the past 6 years, while the annual average unemployment rate for the MSA has dropped from 7.3% in 2010 to just 3.6% last year (graph). By November 2015, the monthly unemployment rate had actually dropped to just 2.7% for the Twin Cities MSA, by far the lowest rate of any American MSA with 1 million or more people.

With a strengthening economy and average annual 10-year treasury rates of just 2%-3% over the past six years, the Twin Cities multifamily market came back to life, and rent growth followed. According to the Marquette Advisors quarterly Twin Cities apartment survey, rents have gone from -0.33% annual decline in 2010 to 4.37% annual increase in 2015 (3rd quarter data in each year). In the past three years especially, solid rent growth in the face of much higher unit deliveries shows that the Twin Cities rental market has been working through significant pent-up demand.

Entering 2016, the Twin Cities multifamily market appears to be on solid footing, with good employment and economic metrics and overall new multifamily deliveries down about 6% over 2015 (4,713 units expected). The performance of specific submarkets will be the key storylines that emerge during this coming year.

We at Dougherty Mortgage hope you find valuable information in this year’s Market Viewpoint report.
TWIN CITIES MULTIFAMILY SUBMARKETS

THIS REPORT DIVIDES THE TWIN CITIES into 11 multifamily submarkets, each with unique characteristics. Concentrated development in the downtowns of Minneapolis and St. Paul, and in the Uptown area of Minneapolis, has helped transform key cultural and employment districts into desirable housing locations. Similarly, key nodes in select first-ring suburbs and inner-city neighborhoods have seen strong amounts of multifamily investment in recent years as the market acknowledges the wide array of attractions and short commutes offered in the ’50s and ’60s development ring. In addition, private investment in student-oriented buildings has created a unique rental submarket in the immediate neighborhoods surrounding the University of Minnesota campus.

1 Downtown Minneapolis – the area within the I-94/I-35W freeway ring, plus areas immediately adjacent that have a Downtown orientation, such as St. Anthony/East Bank Riverfront (centered on East Hennepin Avenue and University Avenue SE).

2 Minneapolis Uptown – the area in the broader Lake Street corridor, stretching from the West Lake Calhoun district near Chown Avenue, east to roughly Lyndale Avenue. Includes development within roughly ½-mile north or south of Lake Street. The 29th Street Greenway is a key feature of this submarket.

3 U of M Neighborhoods – the area surrounding both banks of the Minneapolis campus, generally bounded by I-35W on the west, the Burlington Northern rail yards (north of TCF Bank Stadium) on the north, Malcom Avenue SE on the east, and I-94 on the south. Includes all or most of the student-oriented neighborhoods of Marcy-Holmes (includes Dinkytown), University, Prospect Park (includes Stadium Village), and Cedar-Riverside.

4 Minneapolis Neighborhoods – the remainder of the City outside of Downtown, Uptown, and the University of Minnesota neighborhoods.

5 Downtown St. Paul – the area bounded by the I-94/I-35E freeway loop between roughly Kellogg Boulevard/Chestnut Street on the west and Lafayette Road/Highway 52 on the east. Includes the Upper Landing housing district and the West Side Neighborhood (north of Plato Boulevard) south of the Mississippi River.

6 St. Paul Neighborhoods – the remainder of the City outside of Downtown.

7 First-Ring Suburbs – includes 23 inner-ring suburbs surrounding Minneapolis and St. Paul. These areas were mostly developed in the 1950s and 1960s and have been the focus of significant redevelopment activity in recent years.

8 Northwest Suburbs – includes all suburbs north of I-394/US 12 and west of the Mississippi River, plus the western ½ of Anoka County (Coon Rapids, Andover, Ramsey, Anoka, etc.)

9 Southwest Suburbs – includes all suburbs south of I-394/US 12 and west of I-35W/I-35. Includes Bloomington and all of Scott and Carver Counties.

10 Northeast Suburbs – generally covers the suburbs east of the Mississippi River and north of I-94, excluding the western ½ of Anoka County.

Downtown Minneapolis – Downtown Minneapolis continues to lead the Twin Cities in multifamily housing growth. In 2015, Downtown Minneapolis added 732 multifamily units and will add another 772 units in 2016. This two-year total is the highest among all 11 submarkets. As well, Downtown Minneapolis continues to provide the most innovative rental product in the Twin Cities. Last year saw the opening of the 13-story Latitude 45 tower and the 251-unit A-Mill Artist Lofts. This latter project required an immense rehabilitation effort estimated at $156 million, involving a large array of debt, tax credits, grants and other sources of funds. Two more high-rise towers, two mid-rise buildings and one smaller warehouse conversion will open in 2016 in Downtown Minneapolis. The 2,800+ proposed units in Downtown Minneapolis are second only to the First-Ring Suburbs for future possible deliveries.

Downtown Minneapolis has been a consistent provider of new affordable rental units this decade. With the exception of 2011 (zero production), Downtown Minneapolis has added between 60 and 250 new, general-occupancy affordable units per year since 2010. By the end of 2016, Downtown will have added 842 affordable, non-senior rental units over the past seven years, second only to the neighborhoods of Minneapolis (911 units).

Downtown Minneapolis can boast about being the most rail transit-connected rental district in the Twin Cities. Fifteen newer rental buildings with more than 2,700 units are within four blocks of an LRT station platform for the Green or Blue Lines.

Southwest Suburbs – The Southwest Suburbs led the outward push of new multifamily development in the Twin Cities in 2015. This submarket led the Twin Cities with 1,028 new units in 2015, about 21% of the MSA production total. One new project opened in each of five suburbs: Bloomington, Eden Prairie, Minnetonka, Savage and Shakopee. Development in the Southwest Suburbs continues to be more scattered and less “nodal” than the development pattern in the First-Ring Suburbs, where established commercial districts such as Southdale are being retrofitted with residential components.

Deliveries in 2016 in the Southwest Suburbs will fall to somewhere between 300 and 560 units, depending on the opening date of projects currently under construction. At 394 units, IndiGO near the Bloomington Central Station LRT platform, is the largest project in the Southwest – and the second-largest under construction in the Twin Cities. IndiGO is slated to begin leasing later this year. A mixed-income project in Minnetonka and an affordable townhome project in far-out Carver will also deliver in 2016.

For 2017 and beyond, the Southwest Suburbs could see production of 1,200 or more units in Bloomington, Chaska, Chanhassen, Hopkins and Minnetonka, with this last city considering at least five proposals. The proposed southwest extension of the Green Line LRT will likely see 300 units beginning construction within ¼-mile starting in 2017.
First-Ring Suburbs – This submarket delivered 608 general-occupancy multifamily units in six projects in 2015 and is on track to deliver 549 more units among five projects in 2016. As has been the pattern so far this decade, new projects have been almost exclusively located on the Minneapolis side of the metro area, with only the 50-unit Villages at Frost-English project in Maplewood (2016 opening) located on the St. Paul side. Near Minneapolis, five communities have 2015 or 2016 project openings: Edina (3), St. Louis Park (3), Golden Valley (2), and Robbinsdale and the Fort Snelling Territory at one each. Much leasing and construction activity in the past year focused on Southdale in Edina and the West End in St. Louis Park/Golden Valley.

Among the new deliveries last year in the First-Ring Suburbs are two important affordable projects: Upper Post Veterans Housing in the Fort Snelling Territory adjacent to MSP Airport, and Clare Terrace in Robbinsdale. Both projects serve targeted populations with a combination of housing and services.

First-ring multifamily development promises to lead the Twin Cities in coming years with 3,200 proposed units in 15-20 possible projects. Development will continue to be focused on the Minneapolis side. Key districts such as the West End (1,050+ proposed units) Southdale (650+) and Excelsior Boulevard (330+) will continue to solidify as desirable residential areas, but many scattered redevelopment sites have emerged as well. More than 500 affordable rental units have been proposed in the First-Ring Suburbs, by far the most of any submarket.

Southeast Suburbs – The Southeast Suburbs delivered three general-occupancy multifamily projects in Eagan and one in Apple Valley in 2015, for a total of 454 units. This year, two more projects in Apple Valley will add 476 units, bringing the 2-year total to 930 units, fourth most in the Twin Cities. In the prior years of 2010-2014, the Southeast Suburbs only delivered 207 multifamily units, by far the lowest such total in the Twin Cities. Clearly, this area has hit the radar of the development community.

The Southeast Suburbs have produced about 260 general-occupancy affordable units since 2010. Six of the seven projects that have opened were developed by the Dakota County CDA, a government entity that has pursued family townhome projects of 25-50 units in Eagan, Farmington, Inver Grove Heights, Lakeville and Woodbury. However, few affordable units are in the proposal stage in the Southeast Suburbs at this time. Development in the Southeast Suburbs should continue in 2017 and after, with five market-rate projects expected to provide nearly 680 units.

Northwest Suburbs – The Northwest Suburbs, historically a low-producer of multifamily housing, delivered just 68 units last year, the second-lowest total in the Twin Cities. Just one development opened: Compass Pointe in New Hope, a four-story, mid-rise affordable building.

Things should look very different in 2016 as five projects with 817 units are expected to open. This total will lead all Twin Cities submarkets. Two new rental projects, Parkview East (122 market-rate units) and Sunwood Village (47 affordable units) are located near the Northstar commuter rail line in Ramsey. Other new developments for 2016 delivery include Plymouth City Flats (157 units), Skye at Arbor Lakes II in Maple Grove (208 units) and the first phase of 610 West, a massive 484-unit market-rate development in Brooklyn Park along Highway 610 near Hampshire Avenue North. 610 West is reportedly the City’s first market-rate luxury apartment project in more than 20 years.

Roughly 670 units are proposed for 2017 delivery and after, putting the Northwest Suburbs third from the bottom for expected new production among the 11 submarkets in the Twin Cities. Projects are expected in Champlin, Brooklyn Park (the last phases of 610 West), Maple Grove and Rogers.
U of M Neighborhoods – Last year saw the second-highest multifamily production total since 2010 in the neighborhoods near the U of M Minneapolis campus. Private developers delivered five projects with 873 units; three projects (281 units) opened in Dinkytown, one (333 units at WaHu) opened in Stadium Village and one (259 units at Five15 on the Park) opened near the West Bank. Last year was the sixth and final year in an unprecedented development boom near the University, when nearly 3,100 units opened in 27 projects, a yearly average of five projects and 500+ units.

This year will see no new projects opening in this submarket. It is the only one among 11 Twin Cities submarkets with no expansion of the multifamily supply in 2016. However, four projects offering a combined total of 778 units are in the planning or proposed stage of development for 2017 or later near the University. Two of them would be near the Green Line LRT in the Prospect Park neighborhood east of the main campus. Two others would be built in the Marcy Holmes neighborhood west of the main campus.

Minneapolis Neighborhoods – The neighborhoods of Minneapolis have seen consistent general-occupancy, multifamily development activity so far this decade. Since the start of 2010, 25 projects have opened in this submarket, behind only Downtown Minneapolis (33 projects) and the U of M Neighborhoods (27). The pace of development has been particularly strong and consistent over the past four years. Each year from 2013 through 2016 shows delivery of between 325 and 450 units, in 3 to 6 projects. Projects in the neighborhoods of Minneapolis have averaged about 75 units in size so far this decade, representative of urban infill sites in scattered areas all throughout the City.

Minneapolis neighborhoods have been especially attractive to developers of general-occupancy, affordable projects. Sixteen projects with more than 910 affordable units have opened so far this decade, including 238 units that will open in 2016. It is just one of two submarkets in the Twin Cities (the other being St. Paul neighborhoods) where more often than not, affordable production exceeds market-rate production. Many of the most notable Twin Cities affordable developers have built projects in the Minneapolis neighborhoods including Aeon, Artspace, Beacon Interfaith Housing, CommonBond Communities, PPL and Sherman Associates.

Multifamily development activity promises to stay strong in the neighborhoods of Minneapolis. At least 12 projects have been proposed with a total of nearly 1,500 multifamily units. Only the First-Ring Suburbs and Downtown Minneapolis show higher amounts of proposed product.

St. Paul Neighborhoods – St. Paul’s neighborhoods are on track to deliver 667 general-occupancy, multifamily units during the two-year span of 2015-16, one of the smaller totals among the 11 Twin Cities submarkets. Both years show three projects, with 324 units delivered last year and 343 expected to deliver by the end of this year. Four of the new projects are smaller, offering 40 to 60 units per building. Two projects are larger, with more than 200 units each. The 210-unit Vintage on Selby opened in 2015 at Selby and Snelling Avenues, and 2700 University, a 248-unit mixed-income project, will open later this year near Westgate station on the Green Line LRT.

Eight future projects covering approximately 960 new multifamily units have been proposed on scattered sites throughout St. Paul’s neighborhoods. Three projects have been proposed along the Green Line LRT in the University Avenue corridor, two have been proposed in the West Seventh neighborhood, one each have been discussed in Highland Park and the Phalen Shopping Center area and one (the second phase of Victoria Park) is under construction along Sheperd Road for a 2017 delivery.
Minneapolis Uptown – Uptown saw the opening of 433 units in 2015, a volume that was right in the middle among the 11 Twin Cities submarkets. The bulk of new units came from Elan Deux, the 388-unit final phase of the immense 591-unit Elan complex built by Greystar Real Estate on the Midtown Greenway. This year will see three smaller-scale projects totaling just 177 units open in the broader Uptown district. These include Motiv, a 42-unit infill project from Lander Group at 23rd and Colfax, the 45-unit Laguna Apartments at 29th and Irving in the heart of Uptown, and The Lakes Residences, a 90-unit, 8-story high-rise building under construction near the Calhoun Beach Club.

The development pace in Uptown appears to be slowing as only 340 units have been proposed for 2017 opening or after. With many of the prime larger sites in Uptown having already been developed, sufficient land for large-scale projects will be harder to pull together. Smaller infill projects of 50 to 150 units are most likely going forward in Uptown.

Downtown St. Paul – Downtown St. Paul hit a lull in new project openings in 2015. After two strong years with over 900 units delivered in 2013-14, Downtown St. Paul was the only Twin Cities submarket to show no deliveries last year. The pace should pick up in 2016 with three projects planned to open, offering 540 units combined. Among these are conversions of two notable, historic buildings: the Custom House (202 units) and the former Pioneer Press building (168 units). These projects will further cement Downtown St. Paul as the leader in conversions of historic buildings and warehouses, with 61% of new supply (1,052 units in 8 buildings) since 2010 coming through this product type.

Downtown St. Paul, like Downtown Minneapolis, has become rail transit connected. Since 2010, nine new buildings with nearly 1,300 units have been built within four blocks of a Green Line LRT station platform in Downtown St. Paul.

Downtown St. Paul has four proposed projects totaling 716 units in the pipeline for 2017 delivery or after. Notable sites near Xcel Energy Center, including the former Seven Corners Hardware site, will hold two large luxury developments.

Northeast Suburbs – This region of the Twin Cities dropped to second-to-last in new multifamily production in 2015 with just one new project, the 85-unit Boat Works Commons complex in White Bear Lake. The Northeast Suburbs have typically produced a small number of new multifamily units each year, with the exception of 418 new units in 2011. In 2016, two projects with 296 units are on pace for delivery: the second, 36-unit phase of Forest Oak Apartments (affordable) in Forest Lake and the 260-unit Cielo Apartments along the Northstar rail line in Fridley. This latter project is the first new luxury rental building in many years in Fridley.

Just over 300 units appear to be in the pipeline for 2017 delivery or beyond in the Northeast Suburbs. This is the lowest total for all 11 Twin Cities submarkets. With expansion of just 180 new units per year on average during this decade, the pace of new development in the Northeast Suburbs is certainly not keeping up with housing demand due to job growth and new household formation. Relatively low rent potential and rising development costs render the economics unworkable for many areas in the Northeast. Unfortunately, the Northeast Suburbs will likely continue to show only limited, sporadic activity in the coming years.
Rail Transit’s Effect on the Development Pattern

Without a doubt, new rail transit over the past ten years in the Twin Cities has had a significant impact on the multifamily development pattern. The ¼-mile buffer on either side of the Blue and Green LRT lines, as well as the Northstar commuter rail line, has attracted 33% of all new multifamily units delivered in the Twin Cities from the start of 2010 through the end of 2016 (7,804 out of 23,661 units total). About 3,730 new multifamily units have been added in the Blue Line corridor (Downtown and South Minneapolis, the Fort Snelling area and east Bloomington), while about 3,360 units have been added in the Green Line corridor in the U of M neighborhoods, Prospect Park in Minneapolis and St. Paul’s University/Midway and Downtown areas (chart). The Northstar commuter rail corridor has captured about 710 new units adjacent to station platforms in Fridley and Ramsey. While all of the newer “transit-proximate” projects are within ¼-mile of a rail line, many are just a 1-3 minute walk from one of the 44 station platforms in these three rail corridors.

Transit-proximate rental housing development has picked up steam since 2013, along with the overall multifamily market. Between 630 and 1,000 units have been added per year over the past four years (including 2016) in the Blue Line corridor, while between 450 and 830 units have been added each year in the Green Line corridor. The Northstar line added nearly 300 units in 2013 and will deliver over 420 units in 2016.

LRT’s Importance to Affordable Housing

Proximity to one of the two LRT lines has been particularly important to affordable projects. Approximately 3,000 affordable rental units have been built (or are under construction) from 2010 through 2016 in one of the five submarkets where an LRT line runs. About 1,350 of these units are located in either the Blue or Green Line corridor, a rate of 46%. This strongly suggests that where LRT is available, affordable development will follow.

The Attraction of Rail Transit to Top Market-Rate Developers

Some of the Twin Cities’ largest developers have pursued projects in close proximity to rail transit. Nearly half of all development in rail transit corridors since 2010 has been constructed by just ten developers (chart), several of which are among the Twin Cities’ largest. Ninety-five percent of the transit-proximate units delivered by the top-ten developers are market-rate units; just 5% are affordable. Typical projects for top-ten developers have been high-profile projects in Downtown Minneapolis, Downtown St. Paul and the U of M. Notable examples include The Nic on 5th, 4Marq and Latitude 45 in Downtown Minneapolis, 7West and WaHu near the U of M, and The Penfield in Downtown St. Paul.

The remaining half of transit-proximate units over the past seven years has been built by 29 developers. Projects have generally comprised 150 units or less, and units were affordable about 75% of the time.

The next six pages of this report show maps of the development pattern and specific multifamily buildings that have been built (or are under construction) in the Blue and Green Line LRT corridors since the start of 2010.
KEY FACTS ABOUT THE BLUE LINE CORRIDOR

- 12-mile stretch with 19 station platforms
- Opened in June 2004; 9.5 million riders in 2014
- 2,739 new multifamily units delivered since 2010*
- 995 units to be delivered in 2016*
- 2,245 additional units proposed*

* Excludes age-restricted/senior housing projects.

BLUE LINE CORRIDOR DEMOGRAPHICS (1/2 Mile Radius)

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<th>2010</th>
<th>2014</th>
<th>2020</th>
<th>Avg. Annual Growth %</th>
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Sources: Met Council, Minnesota Geospatial Commons

DOWNTOWN MINNEAPOLIS PROJECTS

- Junction Flats | 182 Units
- District 600 | 78 Units
- Dock Street Flats | 185 Units
- Velo | 101 Units

PROJECTS ON THE BLUE LINE OUTSIDE OF DOWNTOWN MINNEAPOLIS

- City Place Lofts | 55 Units
- Latitude 45 | 319 Units
- Edition Apartments | 193 Units
- Mill City Quarter | 150 Units
- Mill District City Apartments | 175 Units
- Emanuel Housing | 101 Units
- The Encore | 123 Units

- Five15 on the Park | 250 Units
- Rising Cedar | 40 Units
- Clare Midtown | 45 Units
- Corcoran Triangle | 135 Units
- Station 38 Apartments | 64 Units
- Indigo (U/C) | 394 Units

Image Credits: Mill City Quarter (Star Tribune), Edition Apartments (Ryan Companies/Excelsior Group), The Encore (Sherman Associates), Corcoran Triangle (BKV Group), Indigo (ESG Architects)
KEY FACTS ABOUT THE GREEN LINE CORRIDOR (WEST)

- 11-mile stretch with 18 station platforms (8 in western half)
- Opened in June 2014; 10.9 million riders in first year.
- 1,562 new multifamily units delivered since 2010*
- 292 units to be delivered in 2016*
- 684 additional units proposed*
  * Excludes age-restricted/senior housing projects.

MULTIFAMILY DEVELOPMENT NODES

- West Bank U of M
- East Bank U of M (Northrup Mall Area, Health Complex, Stadium Village)
- Prospect Park
- University Avenue West (Highway 280 to Snelling Avenue)

GREEN LINE CORRIDOR (WEST) DEMOGRAPHICS

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Sources: Met Council, Minnesota Geospatial Commons

MULTIFAMILY DEVELOPMENT NODES

- West Bank U of M
- East Bank U of M (Northrup Mall Area, Health Complex, Stadium Village)
- Prospect Park
- University Avenue West (Highway 280 to Snelling Avenue)

Image Credits: 2700 University (Flaherty & Collins Properties), Prior Crossing (Cermak Rhoades Architects)
KEY FACTS ABOUT THE GREEN LINE CORRIDOR (EAST)
- 11-mile stretch with 18 station platforms (10 in eastern half)
- Opened in June 2014; 10.9 million riders in first year.
- 1,086 new multifamily units delivered since 2010*
- 421 units to be delivered in 2016*
- 538 additional units proposed*
* Excludes age-restricted/senior housing projects.

MULTIFAMILY DEVELOPMENT NODES
- University Avenue East (Snelling Avenue to Capitol Building)
- Downtown St. Paul - West
- Downtown St. Paul - Lowertown

GREEN LINE CORRIDOR (EAST) DEMOGRAPHICS
(1/2 Mile Radius)

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<td>Employment (Jobs)</td>
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<td>3.2%</td>
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Sources: MNB Council, Minnesota Geospatial Commons

Hamline Station East | 57 Units
Hamline Station West (U/C) | 51 Units
Lexington Commons | 48 Units
Western U Plaza | 57 Units
The Penfield | 254 Units
Lowry Apartments | 155 Units
Minnesota Place & Minnesota Vistas | 137 Units
Pioneer Endicott | 234 Units
Rayette Lofts | 86 Units
Lofts at Farmers Market | 58 Units
Custom House (U/C) | 202 Units
CASE STUDIES

PLACE-MAKING IN THE FIRST-RING SUBURBS: THE ELLIPSE ON EXCELSIOR AND E2

The Excelsior Boulevard corridor in St. Louis Park has been one of the Twin Cities’ most active redevelopment areas since the 2003 construction of Excelsior & Grand, a transformative mixed-use complex that set the stage for further investment this decade. A long-time commercial corridor running westward from Minneapolis, Excelsior Boulevard’s 1¼-mile stretch from the Minneapolis border to Highway 100 held great promise to help St. Louis Park move past its image as a middle-income community of starter homes and aging commercial buildings.

Bader Development tapped into the potential of the corridor through the acquisition of three smaller, older commercial properties on the northwest corner of Excelsior Boulevard and France Avenue. Over roughly four years, Bader developed two market-leading multifamily properties: The Ellipse on Excelsior, a 132-unit market-rate building that opened in 2010, and e2, a 58-unit boutique-style building that opened in 2013 just to the west.

Both developments leased quickly and have notably changed the eastern entry into St. Louis Park. Visually, the buildings present modern architecture with a welcoming orientation toward the street. As a “place,” The Ellipse and e2 have become desired destinations to not only live but to shop and dine, with several stores, the Mill Valley Kitchen restaurant and an outdoor plaza anchoring the development site at the highly-visible Excelsior/France intersection.

Additional Sources: Bader Development, Steven Scott Management
Photo Credits: All photos from Bader Development and/or Steven Scott Management

RESURRECTING A LANDMARK: SCHMIDT ARTIST LOFTS

No building represents the working class history of St. Paul’s ethnically-mixed West 7th neighborhood more than the Schmidt Brewery, built in 1863. Less a building and more a collection of uniquely-purposed structures, the Schmidt Brewery presented an enormous challenge for redevelopment. Re-purposing the long-vacant historic complex was high on the priority list for the City of St. Paul for ten years.

Dominium Development & Acquisition acquired the brewery in 2012 and subsequently transformed the bottling house, several grain silos and the brew house into 260 affordable apartments and common space for artists. The amazingly-complex rehabilitation cost roughly $130 million, with a wide variety of loans, grants and other capital sources needed to close the funding gap. Included in the total were $24 million in tax-exempt bonds from the City of St. Paul, $42 million in short-term construction bonds, $1.5 million in federal CDBG funds, environmental cleanup grants from Ramsey County, the State of Minnesota and the Met Council, and $74 million in state and federal tax credits.

With as many as 150 different floorplans, Schmidt Artist Lofts offers unparalleled housing options for the three-dozen+ artist types who live there. No other project in the Twin Cities brings together more musicians, dancers, painters, actors, writers and other creative people in one setting than the rehabilitated Schmidt brewing complex.

Additional Sources: Dominium, Pioneer Press, Ramsey County
Photo Credits (clockwise from top): McGhiever, West 7th Business Association, Dominium Development and Acquisition, unsourced image on curbed.com
Overall New Product Rents in the Twin Cities

Dougherty Mortgage analyzed pricing data in the 4th quarter of 2015 at 80 “newer” market-rate projects, those opened in 2013 or after, throughout the 7-county Twin Cities Metro Area (table at right). The survey gathered current asking rents before concessions or discounts, as quoted by building owners or managers. The survey summarizes the rent structure for 12,478 market-rate units delivered since 2013, including roughly 1,200 units to be delivered in early 2016. Excluding the units expected in early 2016, the pricing survey covers about 90% of all new market-rate units delivered since the beginning of 2013.

The overall weighted average asking rent for newer, market-rate apartments in the Twin Cities was $2.07 per square foot (psf) in the 4th quarter of 2015, 1.0% higher than the $2.05 figure reported roughly one year ago by Dougherty Mortgage. A large number of new deliveries in seven middle- and lower-priced submarkets (those below $2.00 psf) skewed the Twin Cities average downward despite continued strong pricing advances in the upper-priced submarkets over $2.00 psf. No matter, virtually every submarket in the Twin Cities showed higher average asking rents for newer units compared to one year ago.

Downtown Minneapolis again led the way with average rent of $2.36 psf for newer product. The delivery of pricey units at two high-rises – the 13-story Latitude 45 building and the 30-story 4Marq tower – helped keep newer Downtown product at the top of the Twin Cities rental market. Three other submarkets priced-out well above $2.00 psf in the survey: U of M Neighborhoods ($2.31), Minneapolis Uptown ($2.23) and the First-Ring Suburbs ($2.16). Middle-tier markets included Downtown St. Paul ($1.90 psf), St. Paul Neighborhoods ($1.82), Minneapolis Neighborhoods ($1.81) and the Southwest Suburbs ($1.74). Middle- to lower-tier markets included the Northeast Suburbs ($1.68), the Southeast Suburbs ($1.60) and the Northwest Suburbs ($1.45).

Factors Driving Quoted Rents for New Market-Rate Units

On a per-square-foot basis (psf), an ample amount of new market-rate product deliveries in 2015 drove up the average asking rents in virtually all Twin Cities rental submarkets. This was especially true in the St. Paul Neighborhoods and Northeast Suburbs, where new projects with quoted rents above $2.00 psf pushed up the overall submarket average by more than 10%. Downtown Minneapolis also saw a price jump due to new high-rise units coming on-line at top-market prices at Latitude 45 and 4Marq. Quoted psf rents were otherwise flat among newer Downtown Minneapolis projects open one year or more.

With 730 new market-rate units in four projects near the University of Minnesota, the overall psf rent bumped up 4.1%, despite a 1.8% decline in average rent for newer projects open at least one year. High amounts of new product near the University have created downward price pressure on existing buildings. The First-Ring Suburbs continue to see rent growth from new product delivered at higher average psf rents, as well as from price increases among newer properties open at least one year. Both factors contributed to a 3.3% increase in average psf rent in this submarket in 2015.

The Southwest Suburbs, which led the Twin Cities in new deliveries in 2015, had an increase in quoted psf rents of 3.0%. Similar increases occurred in Downtown St. Paul and the Northwest Suburbs, however, neither submarket saw much in the way of new deliveries last year, so the increase in quoted rents came from existing buildings. Uptown had 433 new units delivered last year, but the overall psf rent for this submarket remained unchanged. Existing Uptown projects saw overall growth of less than 1.0% in quoted psf rents, and new product entered the market at very competitive prices. The neighborhoods of Minneapolis also remained the same in average overall psf asking rents. Existing projects dropped quoted rents in some cases throughout Minneapolis, offsetting slightly higher average psf rents at the buildings that opened during 2015.
For market-rate, general-occupancy rental units as of 4th quarter 2015, three submarkets consistently quoted top-tier average rents across all unit types: Downtown Minneapolis, Minneapolis Uptown and the First-Ring Suburbs. Middle-price submarkets generally included the neighborhoods of Minneapolis and St. Paul, the Northeast and Southwest Suburbs, and Downtown St. Paul. This latter submarket was among the highest-priced markets for one- and two-bedroom unit types. Lower-priced submarkets typically included the Southeast and Northwest Suburbs. The U of M Neighborhoods straddle the line between middle-and lower-tier, depending on the unit type, although typically small units make this submarket among the most expensive on a per-square-foot basis.

### Studio Units – Average Quoted Rents for Newer Units

<table>
<thead>
<tr>
<th>Upper-Tier Submarkets:</th>
<th>Middle-Tier Submarkets:</th>
<th>Lower-Tier Submarkets:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minneapolis Uptown</td>
<td>U of M Neighborhoods</td>
<td>Southeast Suburbs</td>
</tr>
<tr>
<td>$ 1,437</td>
<td>$ 1,194</td>
<td>$ 995</td>
</tr>
<tr>
<td>First-Ring Suburbs</td>
<td>Southwest Suburbs</td>
<td>Northwest Suburbs</td>
</tr>
<tr>
<td>$ 1,371</td>
<td>$ 1,123</td>
<td>Range: $925 to $1,125</td>
</tr>
<tr>
<td>Downtown Minneapolis</td>
<td>Downtown St. Paul</td>
<td>Insufficient Data:</td>
</tr>
<tr>
<td>$ 1,297</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Range: $975 to $2,440</td>
<td></td>
</tr>
<tr>
<td>Southeast Suburbs</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Range: $833 to $1,315</td>
<td></td>
</tr>
<tr>
<td>Northwest Suburbs</td>
<td></td>
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<tr>
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</tbody>
</table>

### One-Bedroom Units – Average Quoted Rents for Newer Units

<table>
<thead>
<tr>
<th>Upper-Tier Submarkets:</th>
<th>Middle-Tier Submarkets:</th>
<th>Lower-Tier Submarkets:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minneapolis Uptown</td>
<td>Northeast Suburbs</td>
<td>U of M Neighborhoods</td>
</tr>
<tr>
<td>$ 1,691</td>
<td>$ 1,487</td>
<td>$ 1,307</td>
</tr>
<tr>
<td>Downtown Minneapolis</td>
<td>Southwest Suburbs</td>
<td>Northeast Suburbs</td>
</tr>
<tr>
<td>$ 1,655</td>
<td>$ 1,435</td>
<td>Range: $980 to $1,585</td>
</tr>
<tr>
<td>First-Ring Suburbs</td>
<td>St. Paul Neighborhoods</td>
<td></td>
</tr>
<tr>
<td>$ 1,593</td>
<td>$ 1,425</td>
<td></td>
</tr>
<tr>
<td>Downtown St. Paul</td>
<td>Minneapolis Neighborhoods</td>
<td></td>
</tr>
<tr>
<td>$ 1,568</td>
<td>$ 1,379</td>
<td></td>
</tr>
<tr>
<td>Range: $1,135 to $2,850</td>
<td>Range: $1,050 to $2,395</td>
<td></td>
</tr>
<tr>
<td>Range: $1,050 to $2,395</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Range: $980 to $1,585</td>
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<td></td>
</tr>
<tr>
<td>Range: $980 to $1,585</td>
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<td></td>
</tr>
</tbody>
</table>

### Two-Bedroom Units – Average Quoted Rents for Newer Units

<table>
<thead>
<tr>
<th>Upper-Tier Submarkets:</th>
<th>Middle-Tier Submarkets:</th>
<th>Lower-Middle Submarkets:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Downtown St. Paul</td>
<td>St. Paul Neighborhoods</td>
<td>U of M Neighborhoods</td>
</tr>
<tr>
<td>$ 2,608</td>
<td>$ 2,100</td>
<td>$ 2,222</td>
</tr>
<tr>
<td>Downtown Minneapolis</td>
<td>Southwest Suburbs</td>
<td>Southeast Suburbs</td>
</tr>
<tr>
<td>$ 2,415</td>
<td>$ 1,862</td>
<td>$ 2,114</td>
</tr>
<tr>
<td>Minneapolis Uptown</td>
<td>U of M Neighborhoods</td>
<td>Southwest Suburbs</td>
</tr>
<tr>
<td>$ 2,401</td>
<td>$ 1,849</td>
<td>$ 1,955</td>
</tr>
<tr>
<td>First-Ring Suburbs</td>
<td>Minneapolis Neighborhoods</td>
<td>Northeast Suburbs</td>
</tr>
<tr>
<td>$ 2,309</td>
<td>$ 1,847</td>
<td>$ 1,923</td>
</tr>
<tr>
<td>Range: $1,595 to $4,550</td>
<td>Range: $1,250 to $3,560</td>
<td>Range: $1,395 to $2,895</td>
</tr>
<tr>
<td>Range: $1,255 to $2,230</td>
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</tbody>
</table>

### Three-Bedroom Units – Average Quoted Rents for Newer Units

<table>
<thead>
<tr>
<th>Upper-Tier Submarkets:</th>
<th>Upper-Middle Submarkets:</th>
<th>Lower-Tier Submarkets:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Downtown Minneapolis</td>
<td>St. Paul Neighborhoods</td>
<td>Northwest Suburbs</td>
</tr>
<tr>
<td>$ 3,610</td>
<td>$ 3,027</td>
<td>$ 1,680</td>
</tr>
<tr>
<td>First-Ring Suburbs</td>
<td>Downtown St. Paul</td>
<td>Range: $1,515 to $1,845</td>
</tr>
<tr>
<td>$ 3,271</td>
<td>$ 2,965</td>
<td></td>
</tr>
<tr>
<td>Minneapolis Uptown</td>
<td>Minneapolis Neighborhoods</td>
<td></td>
</tr>
<tr>
<td>$ 3,179</td>
<td>$ 2,629</td>
<td></td>
</tr>
<tr>
<td>Range: $2,330 to $5,525</td>
<td>Range: $1,941 to $4,610</td>
<td></td>
</tr>
<tr>
<td>Range: $1,941 to $4,610</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Range: $1,941 to $4,610</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Range: $1,515 to $1,845</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
NEW PRODUCT PRICING TRENDS
Pricing Structure by Twin Cities Submarket | 4th Quarter 2015

TOP TIER SUBMARKETS
Above $2.00/sq. ft. Average

Legend:
- **Studio**
- **1BR**
- **2BR**
- **3BR**

Downtown Minneapolis ($2.36 / sq. ft. submarket average)

- Low Asking Rent: $975
- Average Asking Rent: $1,297
- High Asking Rent: $1,625
- Studio: $1,179
- 1BR: $1,655
- 2BR: $2,415
- 3BR: $2,600
- Average: $1,655
- High: $4,312
- Range: $5,365

U of M Neighborhoods ($2.31 / sq. ft. submarket average)

- Low Asking Rent: $930
- Average Asking Rent: $1,194
- High Asking Rent: $1,315
- Studio: $1,050
- 1BR: $1,489
- 2BR: $2,222
- 3BR: $2,495
- Average: $1,849
- High: $5,525
- Range: $11,550

Minneapolis Uptown ($2.23 / sq. ft. submarket average)

- Low Asking Rent: $1,150
- Average Asking Rent: $1,437
- High Asking Rent: $1,691
- Studio: $1,225
- 1BR: $1,691
- 2BR: $2,401
- 3BR: $2,850
- Average: $2,830
- High: $5,525
- Range: $8,375

First-Ring Suburbs ($2.16 / sq. ft. submarket average)

- Low Asking Rent: $1,100
- Average Asking Rent: $1,371
- High Asking Rent: $1,643
- Studio: $1,135
- 1BR: $1,593
- 2BR: $2,309
- 3BR: $2,590
- Average: $2,336
- High: $4,500
- Range: $6,836
NEW PRODUCT PRICING TRENDS
Pricing Structure by Twin Cities Submarket | 4th Quarter 2015

MIDDLE TIER SUBMARKETS
Between $1.75 and $2.00/sq. ft. Average

Legend: Studio 1BR 2BR 3BR

Downtown St. Paul ($1.90 / sq. ft. submarket average)

<table>
<thead>
<tr>
<th>Low Asking Rent</th>
<th>Average Asking Rent</th>
<th>High Asking Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>$900</td>
<td>$1,109</td>
<td>$1,300</td>
</tr>
<tr>
<td>$1,250</td>
<td>$1,568</td>
<td>$2,440</td>
</tr>
<tr>
<td>$1,675</td>
<td>$2,405</td>
<td>$3,995</td>
</tr>
</tbody>
</table>

St. Paul Neighborhoods ($1.82 / sq. ft. submarket average)

<table>
<thead>
<tr>
<th>Low Asking Rent</th>
<th>Average Asking Rent</th>
<th>High Asking Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>$995</td>
<td>$1,051</td>
<td>$1,150</td>
</tr>
<tr>
<td>$1,125</td>
<td>$1,425</td>
<td>$2,100</td>
</tr>
<tr>
<td>$1,405</td>
<td>$1,941</td>
<td>$3,027</td>
</tr>
</tbody>
</table>

Minneapolis Neighborhoods ($1.81 / sq. ft. submarket average)

<table>
<thead>
<tr>
<th>Low Asking Rent</th>
<th>Average Asking Rent</th>
<th>High Asking Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>$833</td>
<td>$1,080</td>
<td>$1,290</td>
</tr>
<tr>
<td>$1,073</td>
<td>$1,379</td>
<td>$1,850</td>
</tr>
<tr>
<td>$1,360</td>
<td>$1,625</td>
<td>$3,220</td>
</tr>
</tbody>
</table>

$2,440 $1,425 $833 $1,080
$1,885 $2,100 $1,847 $1,850
$3,027 $3,027 $2,629 $3,150
NEW PRODUCT PRICING TRENDS
Pricing Structure by Twin Cities Submarket | 4th Quarter 2015

LOWER TIER SUBMARKETS
Under $1.75/sq. ft. Average

Legend:
- Studio
- Low Asking Rent
- Average Asking Rent
- High Asking Rent
- Insufficient Data

Southwest Suburbs ($1.74 / sq. ft. submarket average)

Northeast Suburbs ($1.68 / sq. ft. submarket average)

Southeast Suburbs ($1.60 / sq. ft. submarket average)

Northwest Suburbs ($1.45 / sq. ft. submarket average)
A Small Drop in Production But Still Strong Performance

The Twin Cities multifamily market will continue the trend of production of at least 4,500 new units in 2016. Despite a production decline of about 6% over last year’s 4,992 units, 2016 will still be a strong year with 4,713 expected new units. This will extend for the 4th straight year a strong level of multifamily production in the Twin Cities.

Over the past year, the multifamily sector has more than carried its weight in providing new housing in the Twin Cities. Relative to new building permits issued, the 4,992 new rental units delivered in the Twin Cities in 2015 equaled 48% of the 10,208 units permitted last year (Builders Association of the Twin Cities). If permitting activity stays at just over 10,000 units – the annual average from 2012 through 2015 – multifamily deliveries will represent 46% of the housing permits issued in 2016.

Affordable Rental Housing Will Have a Strong Year...

Affordable unit production in 2016 will hit its highest total in years with roughly 1,070 units (excluding senior housing) on track to be delivered. More than one in five new multifamily units delivered this year in the Twin Cities will offer some level of rent restriction, the highest such level since 2010-2012, when relatively few market-rate units were delivered. The production shift toward affordable housing and away from market-rate units, if even for just one year, will greatly help low- and middle-income working households across the Twin Cities.

...But the Affordable Pipeline Needs to Fill Up

Despite the strong level of affordable production expected this year, the 2017+ pipeline looks thin at the moment. Dougherty Mortgage is tracking approximately 1,500 proposed affordable units for 2017 delivery or beyond, a supply of just 1.4 years’ worth of construction based on 2015’s volume. With an estimated 4,200 new affordable rental units needed each year in the Twin Cities, any drop in production would be detrimental to the Twin Cities economy and those households who rely on quality, affordable rental housing.

Market Conditions Will Remain Tight, with Increased Activity in the Suburbs

Local firms that closely track apartment vacancies have forecasted that the overall rental vacancy rate should stay somewhere near 3% in 2016, a very tight market. Given that the number of Twin Cities households is expanding by 14,000+ each year (Met Council) but overall building permits have been no higher than 10,600 in any recent year, a tight overall housing market will continue through 2016. Further pressure is coming from a strong Twin Cities economy, with a 2.7% unemployment rate being at the absolute low end among large U.S. Metro Areas (1 million+ population). Finally, there is no evidence that single-family production will dramatically increase in 2016, thus adding downward pressure on overall housing vacancy rates.

Production in the suburbs should hit its highest level this decade, with 52% of new supply in 2016 expected outside of Minneapolis and St. Paul proper. The Northwest Suburbs will lead all submarkets with over 800 new multifamily units in 2016, but the First-Ring Suburbs and the Southeast Suburbs will also be in the top five for production, each expecting to add roughly 500 or more units. Downtown Minneapolis and Downtown St. Paul will continue to expand in 2016 (772 and 540 new rental units, respectively), but the Uptown and U of M submarkets will add virtually no new supply, signaling the end of extended development booms in both areas.
A LEADING LENDER WITH A NATIONWIDE PRESENCE
Dougherty Mortgage LLC is a top provider of conventional and affordable multifamily financing, with offices throughout the country. Wherever our clients are, we are also there. Dougherty Mortgage specializes in providing access to federal agency loan programs to customers interested in Fannie Mae DUS®, Freddie Mac Program Plus®, and FHA financing solutions. In addition to conventional multifamily financing, Dougherty Mortgage also provides financing solutions for affordable housing, senior independent and assisted living residences, hospitals, health care facilities and student housing. Since 2011, Dougherty Mortgage has been a top-10 HUD/FHA lender in terms of the number of loans or dollar amount, or both. Dougherty Mortgage is also one of the country’s leading Fannie Mae DUS lenders.

AFFORDABLE HOUSING FINANCE – A VARIETY OF SOLUTIONS
In addition to extensive conventional financing experience, Dougherty Mortgage offers comprehensive debt solutions for affordable rental housing projects in all types of settings. As a leading Fannie Mae and HUD/FHA lender, we recognize the challenges associated with affordable housing finance and guide our clients through the process at all stages. Some of the many solutions with which we help our clients include Fannie Mae DUS® and FHA-insured mortgages, tax-exempt credit enhancement, low-income housing tax credits, historic and new markets tax credits and various government programs that offer subordinated loans or grants.

Our affordable housing clients include non-profit and for-profit multifamily housing owners, developers and operators. Whether our clients are looking to refinance, acquire, build or rehabilitate, we offer compelling financial options and work diligently to develop a creative, tailored solution for each transaction.

INTEGRATED FINANCING SOLUTIONS – DOUGHERTY MORTGAGE AND DOUGHERTY & COMPANY
Dougherty Mortgage partners with an affiliated entity, Dougherty & Company LLC, on many affordable transactions that involve 4% low-income housing tax credits coupled with tax-exempt bonds. On all types of housing transactions, Dougherty & Company may also serve as the underwriter for tax increment revenue bonds, subordinate bonds, housing and healthcare bonds, and other types of issuances.