THE IMPORTANCE OF AFFORDABLE HOUSING TO OUR COMMUNITY

Affordable housing is an essential component in the full spectrum of housing options, underpinning a vibrant society and a strong economy. A large number of Twin Cities families, individuals, seniors and working households rely on quality, affordable housing that is well-located near jobs, schools, amenities, personal services and daily conveniences. Without good-quality affordable housing in a wide variety of locations, the Twin Cities region cannot maximize opportunities for all of its residents. Continued development and preservation of affordable housing will allow the Twin Cities to tap its full social and economic potential, benefitting everyone.

Dougherty Mortgage proudly holds a leading role in affordable housing lending in the Twin Cities, and across the country. We are pleased to provide this report to help educate our clients and business partners on the key facts and issues surrounding affordable housing in the Twin Cities.
STRENGTHENING PRODUCTION VOLUME SINCE 2010

Production of affordable rental housing\(^1\) has clearly shown an upward trend throughout the Twin Cities over the past 6 years, rising from just 363 units delivered in 2010 to 1,286 units expected to be delivered this year. A total of 76 projects offering 4,584 affordable units will have been built from 2010 by the end 2015.

The pattern of affordable rental housing production in the Twin Cities has mirrored that of overall rental housing production, with deliveries increasing noticeably in recent years. With the easing of the housing recession after 2010, developers gained confidence to build affordable units in larger numbers, spurred by low interest rates, readily-available investor equity, and ever-present market demand.

A CONSISTENT SHARE OF OVERALL HOUSING PRODUCTION

Affordable rental housing has made up less than 10% of new supply in most recent years, typically between 7% and 8% of all new housing units built in the Twin Cities. The exception was affordable housing’s 14% share in 2011, when the overall weak housing market produced fewer than 4,600 permits for new units of all types in the Twin Cities.

The good news is that development of new affordable rental housing has kept pace with overall apartment construction during the recent boom. In 2015, affordable rental housing should again represent a larger piece of the overall housing pie, with affordable units expected to comprise 14% of all new housing units in the Twin Cities.

STILL A GREAT NEED FOR MORE UNITS

The Met Council projects that the Twin Cities will need 52,266 new affordable units of all types (owned and rented) between 2011 and 2020 (Thrive MSP 2040). This translates to 5,200+ new units needed each and every year in this decade.

In rough terms, housing planners have estimated that about 80% of new affordable housing should be in the form of rental units, or approximately 4,200 rental units needed each year. Production over the past six years has fallen well short of this goal, with a 2,900-unit shortfall in even the strongest year (2015; 1,286 units to be delivered). Clearly, many more affordable rental units need to be built in the Twin Cities for years to come.

\(^1\) 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, seniors and targeted populations (e.g. long-term homeless, homeless youth, persons with mental health or chemical dependency issues, persons with disabilities and other supportive housing populations). This report does not tally shelter beds or other short-term accommodations, housing preservation units, market-rate units that are rented at “affordable” levels or market-rate units occupied with tenants holding rent vouchers.
WHERE HAVE UNITS BEEN BUILT, AND WHO IS BEING SERVED?

Strength in the Urban Core

Minneapolis neighborhoods have seen far more new affordable units than any other Twin Cities submarket since 2010. About 27% of all new affordable units (1,268) have been built in 22 neighborhood projects throughout the City. This submarket is just one of two areas (first-ring suburbs being the other) offering affordable units for all three main needs groups: general-occupancy tenants, seniors and targeted populations.

Downtown Minneapolis, the southeast suburbs and St. Paul neighborhoods each added between 550 and 650 new affordable units over the past 6 years, while the northwest suburbs and first-ring suburbs each produced roughly 430 to 440 new units. The pattern of higher amounts of affordable units in several central urban areas reflects a number of strengths in the higher-density urban core: greater service offerings, more transit options, closer proximity to jobs and a greater acceptance of affordable housing development in general. Also, many of the leading affordable housing developers, especially non-profits, are based in the central cities and they tend to develop sites in their own “backyard.”

Redevelopment in Minneapolis, St. Paul and the first-ring suburbs has also fueled affordable housing construction in mixed-income buildings and senior developments.

General-occupancy Units

General-occupancy units comprised about 61% of all new affordable rental production in the past 6 years, with all parts of the Twin Cities seeing projects of this type. Forty-seven general-occupancy projects delivered 2,802 units between 2010 and 2015, roughly 470 units per year on average. Developers built projects in a variety of settings, including both downtowns, throughout central-city neighborhoods, in first-ring suburbs and on typical suburban sites farther out, including such far-flung locales as Ramsey and Farmington.

While about two-thirds of all general-occupancy units were delivered in low- and mid-rise buildings, warehouse and historic conversions in Minneapolis and St. Paul contributed 675 new units (8 projects) and townhome projects added 270 new units (8 projects). The Dakota County CDA built all but one of the new affordable townhome developments in the Twin Cities since 2010.

Senior Units

More affordable rental units for seniors were added in the southeast suburbs than in any other submarket from 2010-2015. Five projects from the Dakota County CDA contributed all 312 senior units in this submarket. The second-highest affordable senior housing production occurred in the first-ring suburbs (263 units in three projects) and the Minneapolis neighborhoods (261 units in five projects). The northeast, northwest and southwest suburbs and St. Paul neighborhoods produced between 50 and 130 units each. Neither downtown has added affordable senior rental units over the past 6 years.

Units for Targeted Populations

Sites for affordable rental housing for targeted populations are difficult to secure for a variety of reasons, but proximity to supportive services is a key factor. Ten buildings with 555 permanent units (excluding shelter, temporary and transitional units or beds) were built between 2010 and 2015. Roughly 89% of new units for targeted populations are in Minneapolis, with a somewhat equal split between downtown (three projects, 247 units) and the neighborhoods (five projects, 214 units). Additional units included veterans-targeted housing in renovated, historic buildings on the grounds of Fort Snelling. Known as Upper Post Veterans Community, the units opened this year, developed by CommonBond Communities, working closely with the Veterans Administration.
TYPES OF NEW AFFORDABLE RENTAL PROJECTS IN THE TWIN CITIES

In most cases, developers of affordable rental housing in the Twin Cities have employed lower-cost, low- and mid-rise wood-frame building designs. Nearly 80% of all new affordable units (3,639) since 2010 have been in these two building types. Conversions of historic buildings and old warehouses have comprised 15% of new affordable units (675). Large buildings such as the former Schmidt Brewery in St. Paul (260 units) provide developers with more units, creating economies of scale with development costs. Historic projects also offer developers the chance to garner federal and state historic tax credits, which are substantial sources of construction funds. Family townhomes have made up 6% of new affordable rental units in the Twin Cities since 2010, with 8 projects delivering 270 units, mostly in Dakota County.

NEW AFFORDABLE UNITS BY BUILDING TYPE
TWIN CITIES (7 COUNTIES) | 2010 - 2015

<table>
<thead>
<tr>
<th>No. of Projects</th>
<th>No. of Affordable Units</th>
<th>% of New Supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mid-rise Buildings (4-7 stories)</td>
<td>36</td>
<td>2,428</td>
</tr>
<tr>
<td>Low-rise Apartments (&lt;4 Stories)</td>
<td>24</td>
<td>1,211</td>
</tr>
<tr>
<td>Warehouse &amp; Historic Conversions</td>
<td>8</td>
<td>675</td>
</tr>
<tr>
<td>Townhomes</td>
<td>8</td>
<td>270</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>76</strong></td>
<td><strong>4,584</strong></td>
</tr>
</tbody>
</table>

AFFORDABILITY MIX WITHIN NEW PROJECTS

Eighty-four percent of new affordable rental units delivered in the Twin Cities over the past six years has been in projects that are 100% affordable. Projects that are “predominantly affordable” – where between 50% and 99% of the units have rent restrictions and the remainder rent at market-rates – accounted for 13% of new deliveries. Just 3% of new affordable rental units were in projects with relatively few affordable units, either “mixed income” buildings (20%-49% affordable units) or “marginally affordable” projects (below 20%). This latter category typically included market-rate buildings with a small number of units for the long-term homeless.

NEW AFFORDABLE UNITS BY AFFORDABILITY MIX
TWIN CITIES (7 COUNTIES) | 2010 - 2015

<table>
<thead>
<tr>
<th>Affordable Units as % of Project Total</th>
<th>No. of Projects</th>
<th>No. of Affordable Units</th>
<th>% of New Supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% Affordable</td>
<td>100%</td>
<td>61</td>
<td>3,845</td>
</tr>
<tr>
<td>Predominantly Affordable</td>
<td>50% - 99%</td>
<td>8</td>
<td>608</td>
</tr>
<tr>
<td>Mixed Income</td>
<td>20% - 49%</td>
<td>4</td>
<td>100</td>
</tr>
<tr>
<td>Marginally Affordable</td>
<td>Below 20%</td>
<td>3</td>
<td>31</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>76</strong></td>
<td><strong>4,584</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

LEVEL OF RENT RESTRICTIONS AT NEW PROJECTS

Approximately 83% of new affordable rental units in the Twin Cities since 2010 have moderate rent restrictions, where tenants qualify with incomes not to exceed 50%, 60% or 80% of the area median income (AMI) as determined by HUD. Most projects are at a mix of 50% or 60% AMI rents, the levels that qualify projects for federal low-income tax credit (LIHTC) equity funding. Much more difficult to obtain are project-based rent subsidies such as Section 8 funds, which enable developers to offer units to households with low or very-low incomes. Such “deep subsidy” projects have accounted for 17% of new units since 2010, often at buildings with targeted populations.

NEW AFFORDABLE UNITS BY RENT RESTRICTION
TWIN CITIES (7 COUNTIES) | 2010 - 2015

<table>
<thead>
<tr>
<th>No. of Projects*</th>
<th>No. of Affordable Units</th>
<th>% of New Supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deep Subsidy (Section 8, 30% AMI, Long-term homeless)</td>
<td>33</td>
<td>776</td>
</tr>
<tr>
<td>Moderate Restriction (50%, 60% or 80% AMI)</td>
<td>66</td>
<td>3,808</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,584</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

* Note: Many buildings have both types of rent restrictions (deep subsidy and moderate).
DEVELOPMENT PATTERNS: TOP PRODUCERS, DEMAND INDICATORS

TOP PRODUCERS OF AFFORDABLE RENTAL HOUSING IN THE TWIN CITIES

The bulk of new affordable rental units produced in the Twin Cities since 2010 has come from a handful of very active developers. The top five developers – Dominium, Dakota County CDA, CommonBond Communities, Sand Companies and Aeon – accounted for 54% of all new units produced in the past six years. Each developer opened five or more projects during the period.

Dakota County CDA, the top supplier in terms of projects, delivered 12 new buildings in five cities in the Southeast metro. The CDA, a county government entity, split its affordable production between family townhomes and senior units, opening six projects of each type. Dominium, the top affordable producer in terms of units, opened five projects with 946 units. Three Dominium projects, including Schmidt Artist Lofts (260 units), A-Mill Artist Lofts (251 units) and Burza Lofts (136 units), were among the largest 100%-affordable projects to open in the Twin Cities since 2010.

Overall, the top ten producers of affordable rental housing in the Twin Cities delivered more than 70% of the new supply across 46 projects since 2010, while the remaining 30% of units were delivered by 30 other developers.

DEEP, UNMET DEMAND…EVERYWHERE

According to the Met Council, the Twin Cities will need 52,266 new affordable units of all types (owned and rented) between 2011 and 2020 (Thrive MSP 2040). Of this, housing planners have estimated that about 80% of new units should be in the form of rental, or approximately 42,000 units. This equals 4,200 new affordable rental units needed each year in the Twin Cities this decade.

So far this decade, 28 communities in the Twin Cities have added 4,584 new affordable rental units. Essentially, this 6-year production total equals just one year’s worth of metro-wide demand. Led by 1,906 new units in Minneapolis and 801 in St. Paul, the communities that have added new affordable rental units have satisfied just 23% of the shared demand that exists this decade in their communities. Collectively, these cities would still need to add 15,350 units in the remaining years of the decade to meet unmet demand.

The news is more troubling for the 101 Twin Cities communities that have produced no new affordable rental units so far this decade. To satisfy the shared demand amassing within these cities, developers would have to add nearly 21,900 new affordable rental units in the next four years. Clearly, the Twin Cities has a long way to go to meet the ongoing demand for affordable housing in the seven core counties.

<table>
<thead>
<tr>
<th>TOP TEN PRODUCERS OF NEW AFFORDABLE UNITS</th>
<th>TWIN CITIES (7 COUNTIES)</th>
<th>2010 - 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of</td>
<td>No. of Units</td>
<td></td>
</tr>
<tr>
<td>Projects</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dominium</td>
<td>5</td>
<td>946</td>
</tr>
<tr>
<td>Dakota County CDA*</td>
<td>12</td>
<td>580</td>
</tr>
<tr>
<td>CommonBond Communities*</td>
<td>8</td>
<td>356</td>
</tr>
<tr>
<td>Sand Companies</td>
<td>5</td>
<td>312</td>
</tr>
<tr>
<td>Aeon*</td>
<td>5</td>
<td>282</td>
</tr>
<tr>
<td>Project for Pride in Living</td>
<td>3</td>
<td>192</td>
</tr>
<tr>
<td>Sherman Associates</td>
<td>2</td>
<td>180</td>
</tr>
<tr>
<td>Ron Clark Construction</td>
<td>2</td>
<td>134</td>
</tr>
<tr>
<td>Fine Associates</td>
<td>1</td>
<td>130</td>
</tr>
<tr>
<td>Beacon Interfaith Housing Collaborative*</td>
<td>3</td>
<td>114</td>
</tr>
<tr>
<td><strong>Subtotal – Top 10</strong></td>
<td>46</td>
<td>3,226</td>
</tr>
<tr>
<td><strong>All Other Developers</strong></td>
<td>30</td>
<td>1,358</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>76</td>
<td>4,584</td>
</tr>
</tbody>
</table>

* Includes projects done jointly with another developer

SUMMARY OF NEW AFFORDABLE RENTAL CONSTRUCTION VS. ESTIMATED NEED

<table>
<thead>
<tr>
<th>TWIN CITIES (7 COUNTIES)</th>
<th>2010 - 2015</th>
<th>Current Decade (Met Council)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>New Projects</td>
<td>New Units</td>
</tr>
<tr>
<td>Minneapolis</td>
<td>30</td>
<td>1,906</td>
</tr>
<tr>
<td>St. Paul</td>
<td>10</td>
<td>801</td>
</tr>
<tr>
<td>St. Anthony</td>
<td>1</td>
<td>169</td>
</tr>
<tr>
<td>Crystal</td>
<td>1</td>
<td>130</td>
</tr>
<tr>
<td>Maple Grove</td>
<td>3</td>
<td>125</td>
</tr>
<tr>
<td>Eagan</td>
<td>3</td>
<td>124</td>
</tr>
<tr>
<td>Forest Lake</td>
<td>2</td>
<td>106</td>
</tr>
<tr>
<td>Apple Valley</td>
<td>2</td>
<td>105</td>
</tr>
<tr>
<td>Chaska</td>
<td>2</td>
<td>94</td>
</tr>
<tr>
<td>Inver Grove Heights</td>
<td>2</td>
<td>90</td>
</tr>
<tr>
<td>Farmington</td>
<td>2</td>
<td>87</td>
</tr>
<tr>
<td>Burnsville</td>
<td>1</td>
<td>80</td>
</tr>
<tr>
<td>Richfield/Fort Snelling</td>
<td>2</td>
<td>77</td>
</tr>
<tr>
<td>Minnetonka</td>
<td>2</td>
<td>71</td>
</tr>
<tr>
<td>New Hope</td>
<td>1</td>
<td>68</td>
</tr>
<tr>
<td>Plymouth</td>
<td>1</td>
<td>67</td>
</tr>
<tr>
<td>Savage</td>
<td>1</td>
<td>66</td>
</tr>
<tr>
<td>White Bear Lake</td>
<td>1</td>
<td>60</td>
</tr>
<tr>
<td>South St. Paul</td>
<td>1</td>
<td>54</td>
</tr>
<tr>
<td>Ramsey</td>
<td>1</td>
<td>50</td>
</tr>
<tr>
<td>Roseville</td>
<td>1</td>
<td>50</td>
</tr>
<tr>
<td>Woodbury</td>
<td>1</td>
<td>43</td>
</tr>
<tr>
<td>Lakeville</td>
<td>1</td>
<td>40</td>
</tr>
<tr>
<td>Maplewood</td>
<td>1</td>
<td>40</td>
</tr>
<tr>
<td>Oakdale</td>
<td>1</td>
<td>39</td>
</tr>
<tr>
<td>Robbinsdale</td>
<td>1</td>
<td>36</td>
</tr>
<tr>
<td>Wayzata</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td><strong>Subtotals</strong></td>
<td>76</td>
<td>4,584</td>
</tr>
<tr>
<td><strong>Remainder of Cities</strong></td>
<td>-</td>
<td>0</td>
</tr>
<tr>
<td><strong>Twin Cities Total</strong></td>
<td>76</td>
<td>4,584</td>
</tr>
</tbody>
</table>

MARKET SNAPSHOT: AFFORDABLE RENTAL HOUSING IN THE TWIN CITIES | 4
NEW AFFORDABLE HOUSING DEVELOPMENT 2010-15

Legend:
- Project Name
- # of affordable units

- **New Hope**
  - Compass Pointe
  - 68

- **Robbinsdale**
  - Clare Terrace
  - 36

- **Maple Grove**
  - Bottineau Ridge, Phase I
  - 50
  - Maple Village II
  - 48
  - Skye at Arbor Lakes Ph. I
  - 27

- **Minneapolis Downtown**
  - 222 Hennepin
  - 3
  - 430 Oak Grove
  - 1
  - Alliance Apts. Expansion
  - 61
  - A-Mill Artist Lofts
  - 251
  - City Place Lofts
  - 55
  - Emanuel Housing
  - 101
  - Higher Ground
  - 85
  - Stone Arch 2
  - 91

- **Minneapolis Neighborhoods**
  - Abbott Apartments
  - 25
  - Artspace Jackson St. Flats
  - 35
  - Audubon Crossing
  - 30
  - Bii Di Gain Dash Anwebi
  - 47
  - Buza Lofts
  - 136
  - Clare Midtown
  - 45
  - Commons @ Penn Avenue
  - 47
  - Creekside Commons
  - 30
  - Five15 on the Park
  - 130
  - Gateway Lofts
  - 41
  - Greenleaf Apartments
  - 63
  - Greenway Heights
  - 42
  - Hi Lake Triangle Apts.
  - 64
  - Longfellow Station
  - 144
  - Nicollet Square
  - 42
  - Riverview Apartments
  - 42
  - Spirit on Lake
  - 46
  - The Cooperage
  - 60
  - The Rose
  - 47
  - Thomas T Feeney Manor
  - 48
  - Touchstone/Rising Cedar
  - 40
  - West Broadway Crescent
  - 54

- **Wayzata**
  - Maggie Manor
  - 6

- **Minnetonka**
  - Overlook on the Creek
  - 20
  - The Ridge Apartments
  - 51

- **Chaska**
  - Creek’s Run THs
  - 40
  - The Landing
  - 54

- **Plymouth**
  - West View Estates
  - 67

- **Ramsey**
  - The Seasons THs
  - 50

- **Crystal**
  - The Cavanagh
  - 130

- **St. Anthony**
  - Legends at Silver Lake
  - 169

- **Roseville**
  - Sienna Green II
  - 50

- **White Bear Lake**
  - Hoffman Place
  - 60

- **Forest Lake**
  - Forest Oak Apts.
  - 36
  - Tealside Senior Living
  - 70

- **Oakdale**
  - Cypress Senior Living
  - 39

- **Maplewood**
  - Century Trails
  - 40

- **South St. Paul**
  - Thompson Heights
  - 54

- **St. Paul Downtown**
  - Minnesota Place
  - 77
  - Minnesota Vista
  - 60
  - Renaissance Box
  - 70
  - West Side Flats
  - 36

- **St. Paul Neighborhoods**
  - Fort Road Flats
  - 44
  - Hamline Station
  - 108
  - Kings Crossing
  - 49
  - Lexington Commons
  - 48
  - Midway Pointe
  - 49
  - Schmidt Artist Lofts
  - 260

- **Woodbury**
  - Views at City Walk
  - 43

- **Eagan**
  - Lakeshore THs
  - 50
  - Northwood THs
  - 47
  - Riverview Ridge THs
  - 27

- **Apple Valley**
  - Cobblestone Square
  - 60
  - Quarry View
  - 45

- **Inver Grove Heights**
  - Hillcrest Pointe
  - 66
  - Inver Hills THs
  - 24

- **Farmington**
  - Twin Ponds THs Ph. II
  - 26
  - Vermilion Crossings
  - 61
GIVING AN ICON NEW LIFE: A-MILL ARTIST LOFTS

Dominium Development and Acquisition took on the enormous challenge of restoring and converting to affordable apartments the iconic Pillsbury A-Mill complex, a collection of buildings on the Mississippi River that represents the City's flour milling origins like no other. Started in 1881 by owner Charles A. Pillsbury with the opening of the 7-story A-Mill building – a “masterpiece of industrial design,” – the A-Mill complex held the title of largest flour mill in the world for 40 years. Designated historic in 1966, the A-Mill complex is now home to 251 affordable units reserved exclusively for artists and their families.

Dominium embarked on the $156+ million restoration and conversion project in late 2013, converting the multiple buildings on the site into three distinct sections: the North View (7 stories), the South View (12 stories) and WH2 (4 stories). Dominium assembled a large array of funds including 1st mortgage debt, state and federal historic tax credits, low-income housing tax credits, and environmental and redevelopment grants from the Minnesota Department of Employment and Economic Development, the Met Council, Hennepin County and the Minnesota Historical Society. As well, Hennepin County issued housing revenue bonds for the project.

When fully complete at year’s end, A-Mill Artist Lofts will offer studio, one-, two-, three- and four-bedroom units in a wide variety of floorplans. All units have rents restricted to households earning 60% of area median income (AMI), making the project one of the largest 100%-affordable developments in recent Twin Cities history.

Additional Sources: Dominium, Minnesota Historical Society, Star Tribune, Finance and Commerce, BKV Group

VANTAGE FLATS: TRANSIT-ORIENTED UNITS FOR WORKING PEOPLE AND FAMILIES

Public policy has placed a strong emphasis on encouraging affordable housing development near public transit, and many developers have responded with new units along the Blue and Green LRT lines and the Northstar commuter rail line in the Twin Cities.

Vantage Flats, located adjacent to the Blue Line in South Minneapolis, presents a strong example of affordable rental housing with great transit opportunities. Developed by MetroPlains in 2008, Vantage Flats offers 37 one-, two- and three-bedroom units at 50% or 60% AMI rents. Just outside the front door runs the LRT line, offering regular trains north and south in the Hiawatha Avenue corridor, connecting residents to such destinations as Downtown Minneapolis, the Minneapolis VA, MSP International Airport and the Mall of America. Numerous retail, service and entertainment options line the corridor at 19 transit stops. Because of the strong transit options, the project can offer a relatively few amount of parking spaces – just one per unit – and maintain near-full occupancy at all times.

As with many affordable developments, Vantage Flats was built with multiple funding sources including a HUD first mortgage, series A and B bonds, a City of Minneapolis HOME loan, and a transit-oriented development (TOD) loan from Hennepin County, among others.

Additional Sources: MetroPlains, LLC, Collaborative Design Group, ApartmentSmart.com
The number of developers or joint venture partners who have brought new affordable rental units to market in the Twin Cities between 2010 and 2015. This includes private developers, non-profit housing organizations and local government entities with housing development capacity.

(Source: Dougherty Mortgage LLC)

The estimated number of new affordable rental units needed in the Twin Cities between 2011 and 2020 (a 10-year period), assuming 80% of all new need comes in the form of rental housing. This translates to about 4,200 units needed per year.

(Source: Met Council)

The number of funding sources available for affordable housing of all types (owned, rented, special needs, emergency shelter, etc.) from Federal, State and philanthropic sources, respectively.

(Sources: The McKnight Foundation, Housing Link)

The record funding amount awarded for statewide investment in affordable housing, announced by Minnesota Housing in October 2014. The funds will be used to help create or preserve nearly 4,000 affordable units statewide across 78 rental and homeowner projects.

(Source: Minnesota Housing)
TAX CREDITS AND OTHER FUNDING SOURCES – A COMPLEX MIX

The vast majority of affordable rental housing development nationwide is financed primarily with low-income housing tax credits (LIHTCs), a federal program created through the Tax Reform Act of 1986. The program awards dollar-for-dollar tax credits that project developers can in turn sell to private investors, raising valuable equity to fund construction or rehabilitation. LIHTC funds are typically supplemented by first mortgage debt and/or a variety of soft subordinate loans or grants from local and state governments. Often, new affordable developments have a half-dozen or more sources of funds, creating complexity to construction draws, loan subordination agreements, escrow funding, and more.

Tax increment financing (TIF), tax abatements and tax exemptions are important tools that local and state governments regularly extend to affordable rental housing projects, providing significant economic benefit to developers. Local and state governments often favor new affordable rental projects because they help meet important housing goals for low- and middle-income working households, low-income seniors and vulnerable populations alike.

CONSIDERATIONS FOR SITE LOCATION

Affordable housing built today is typically high in quality, well-located and very desirable to renters. Often, it is difficult to distinguish from market-rate offerings. Nevertheless, local opposition may arise and a developer may have to work with local government officials to revise a project to gain approval. Building height, building size and site coverage, or the sheer number of units are often reduced to move a project forward, and all else being equal, affordable developments usually provide fewer units than a market-rate alternative.

Affordable rental developments that are located in areas with high development costs (Difficult Development Areas or “DDAs”) or in areas with higher poverty (Qualified Census Tracts or “QCTs”) may be eligible for significant increases in tax credit basis, which leads to higher equity funding. In the Twin Cities, sites with strong access to transit and employment centers are also highly favored.

GETTING THE DEVELOPMENT TEAM RIGHT

Government sources of financing often mandate a team of professionals who have unique experience with specific requirements in project design, construction, leasing and management. In particular, it is vital to partner with a qualified architect who brings experience regarding federal accessibility laws, and a general contractor that understands prevailing wage reporting, proper change order procedures and monthly construction progress reporting. Timely building completion is very important to funders, especially tax credit investors who provide monies during construction and require certifications to stay in compliance with IRS rules.

UNDERSTANDING RENT DETERMINERS AND CONTROLLING PROJECT EXPENSES

Affordable rental projects may have overlapping rent restrictions from two or more funding sources. It is important to understand how rents are determined, and by whom. As well, rent-setting must factor in tenant-paid utilities and how they may change over time.

On the expense side, affordable rental projects may be subject to operational requirements that can create higher costs than market-rate projects. However, a developer or owner has flexibility to control costs on certain expense items. For example, required capital reserves for replacement on substantial rehab projects may possibly be funded up-front at permanent loan closing, helping reduce the annual funding amount needed from operations. As well, a portion of management fees can sometimes be paid through surplus cash agreements, ensuring a lower level of operational expenses prior to debt service. Finally, affordable rental projects in Minnesota can be eligible to receive lower real estate tax rates under the 4d/low-income apartments class rate. At a minimum, Minnesota’s 4d tax rate is 40% lower than the rate for market-rate apartments.

DEVELOPMENT BUDGET CONSIDERATIONS

Funders of new affordable rental projects will require reserves for construction contingency and project lease-up. It is typical for tax credit funders to also require reserves to maintain debt-service coverage at a specific level (e.g. 1.15) for a 15-year period.

ONGOING OPERATIONAL CONSIDERATIONS

Owners of affordable rental housing must employ management staff who keep excellent records and who are attentive to Fair Housing and anti-discrimination laws. As well, funders will require regular property inspections, annual financial audits and annual income verification of tenants. Working closely with the lender’s servicing and asset management staff helps many owners stay on top of important compliance issues.
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 we help our clients with 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 for subordinated loans or grants.

Our clients include both 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.

A LEADING LENDER WITH A NATIONWIDE PRESENCE

Dougherty Mortgage has established a national presence with offices throughout the country and loan officers who cover all 50 states. Wherever our clients are, we are also there. Dougherty Mortgage has loans in all parts of the country, providing financing for market-rate housing, affordable housing, student housing, seniors housing and hospitals and health care facilities. 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.

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.

REPRESENTATIVE AFFORDABLE TRANSACTIONS

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Amount</th>
<th>Program</th>
<th>Location</th>
<th>Date</th>
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</thead>
<tbody>
<tr>
<td>Merritt Legacy Apartments</td>
<td>$7.7 million</td>
<td>Fannie Mae</td>
<td>Leander, TX</td>
<td>July 2015</td>
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<tr>
<td>Washington Avenue Apartments</td>
<td>$5.25 million</td>
<td>HUD 223(f)</td>
<td>St. Louis, MO</td>
<td>April 2014</td>
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<tr>
<td>Early Bird Townhomes</td>
<td>$4 million</td>
<td>Fannie Mae</td>
<td>Seguin, TX</td>
<td>July 2015</td>
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<tr>
<td>Cedar Villas Townhomes</td>
<td>$11.7 million</td>
<td>HUD 223(f)</td>
<td>Eagan, MN</td>
<td>August 2014</td>
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<tr>
<td>The Cambric</td>
<td>$12.3 million</td>
<td>HUD 221(d)(4)</td>
<td>St. Paul, MN</td>
<td>June 2015</td>
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<tr>
<td>Aspen Bluff Apartments</td>
<td>$3.4 million</td>
<td>Fannie Mae</td>
<td>Peoria, IL</td>
<td>December 2014</td>
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<tr>
<td>Ponderosa Acres</td>
<td>$4.9 million</td>
<td>Fannie Mae</td>
<td>Billings, MT</td>
<td>June 2015</td>
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<tr>
<td>Aeon MP3</td>
<td>“Minneapolis Preservation Portfolio Project”</td>
<td>$10.7 million</td>
<td>Minneapolis, MN</td>
<td>March 2015</td>
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</tbody>
</table>
For more information about this report, please contact
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