

The Building Blocks of Workforce Housing

LEGISLATIVE COUNCIL

OCTOBER 14, 2020





Movin' Out's Mission

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



Who is Movin' Out?

- ❖ 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.
- ❖ We assist households with both home ownership and affordable rental opportunities.
- ❖ We provide specialized housing counseling to assist households to create and carry out a housing plan.
- ❖ We own and operate 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.
- ❖ We are committed to Long term ownership by preserving affordability for 30+ years.

CEDAR CORPORATION

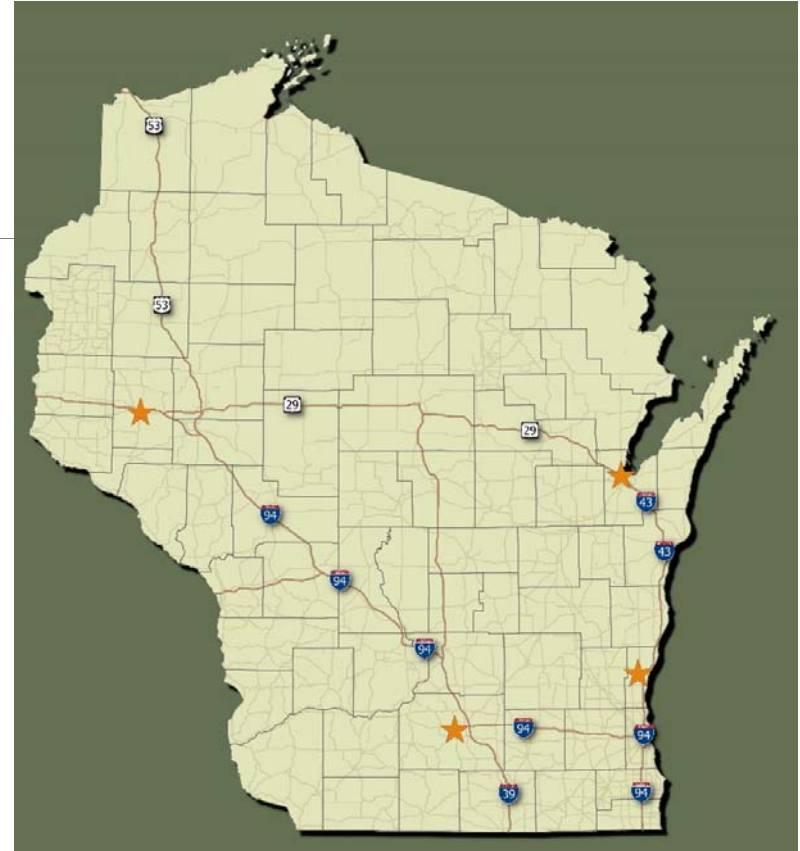
Full-Service Integrated Services Firm

Established 1975

85+ Employees

4 Office Locations

- Menomonie
- Green Bay
- Cedarburg
- Madison



INTEGRATED SERVICES INCLUDE:

- ❖ Economic Development
- ❖ Civil/Municipal Engineering
- ❖ Planning
- ❖ Funding Assistance TIF/Grans
- ❖ Architecture
- ❖ Environmental Services
- ❖ Structural Engineering
- ❖ Surveying/GPS/GIS
- ❖ Transportation
- ❖ Water Resource Services
- ❖ Landscape Architecture
- ❖ Wastewater Services



What Is Workforce Housing?

- ❖ Wisconsin Realtors Association; **“Workforce housing is the supply of housing in a community (a variety of housing types, sizes, locations and prices) that meets the needs of the workforce in that community.”**
- ❖ Urban Land Institute; **“Housing that is affordable to households earning 60 to 120% of the area median income.”**
- ❖ Department of Housing and Urban Development (HUD) defines an **"affordable dwelling"** as one that a household can obtain for **30% or less of its gross income.**

Median Income: Various Wisconsin Counties

County	1 Person	2 People	3 People	4 People	5 People
Brown	\$ 57,700	\$ 65,900	\$ 74,100	\$ 82,300	\$ 88,900
Chippewa	\$ 53,700	\$ 61,400	\$ 69,100	\$ 76,700	\$ 82,900
Eau Claire	\$ 53,700	\$ 61,400	\$ 69,100	\$ 76,700	\$ 82,900
La Crosse	\$ 53,800	\$ 61,500	\$ 69,200	\$ 76,800	\$ 83,000
Marathon	\$ 55,300	\$ 63,200	\$ 71,100	\$ 79,000	\$ 85,400
Portage	\$ 55,000	\$ 62,800	\$ 70,700	\$ 78,500	\$ 84,800
Rock	\$ 49,600	\$ 56,700	\$ 63,800	\$ 70,800	\$ 76,500
Winnebago	\$ 56,600	\$ 64,700	\$ 72,800	\$ 80,800	\$ 87,300

❖ We will use Chippewa County as the reference for this presentation.

Income Limits: Chippewa County

INCOME LIMITS	1 Person	2 People	3 People	4 People	5 People
30% CMI	\$16,110	\$18,420	\$20,730	\$23,010	\$24,870
50% CMI	\$26,850	\$30,700	\$34,550	\$41,450	\$44,500
60% CMI	\$32,220	\$36,840	\$41,460	\$46,020	\$49,740
80% CMI	\$42,960	\$49,120	\$55,280	\$61,360	\$66,320
100% CMI	\$53,700	\$61,400	\$69,100	\$76,700	\$82,900
120% CMI	\$64,440	\$73,680	\$82,920	\$92,040	\$99,480

- ❖ CMI – County Median Income
- ❖ For discussing rents we will look at a family of 4.

Chippewa County, Wisconsin

Data as of 2020 - Q2

NAICS	Industry	Empl	Avg Ann Wages	Avg Monthly Wages
31	Manufacturing	5,323	\$56,510	\$4,709
44	Retail Trade	3,882	\$32,585	\$2,715
62	Health Care and Social Assistance	3,508	\$39,809	\$3,317
23	Construction	1,909	\$56,417	\$4,701
72	Accommodation and Food Services	1,807	\$13,896	\$1,158
61	Educational Services	1,667	\$44,536	\$3,711
48	Transportation and Warehousing	1,212	\$44,866	\$3,739
54	Professional, Scientific, and Technical Services	642	\$60,430	\$5,036
55	Management of Companies and Enterprises	169	\$84,012	\$7,001

* Average Incomes for 50-80% CMI from previous slide - \$41,450 - \$61,360.

Affordable Rent: Chippewa County

Income Level for Family of 4	Gross Monthly Income	30% of Income Used Toward Rent (Including all utilities)
30% CMI	\$1,917	\$575
50% CMI	\$3,454	\$1,036
60% CMI	\$3,835	\$1,150
80% CMI	\$5,113	\$1,534
100% CMI	\$6,391	\$1,917
120% CMI	\$7,670	\$2,301

Sample Chippewa County Project Underwriting Assumptions

- ❖ Hard Costs/Acquisition → Assume land is donated and fully improved
 - Construction Costs - \$145,000/unit + 5% Contingency → **\$7,925,000** 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, reserves) → **\$2,669,510**
 - Developer fee limited at \$21,000/unit using tax credit maximum (~9.5%)
 - Architect fee averages 2-3% of hard costs
- ❖ Unit mix Assumptions
 - 20 One-Bedroom Units (mix of 60% (\$685) , 80% (\$944) , and 120%(\$1,462))
 - 20 Two-Bedroom Units (mix of 60% (\$825), 80% (\$1,136), and 120% (\$1,757))
 - 10 Three-Bedroom Units (mix of 60% (\$954), 80% (\$1,313), and 120%(\$2,031))

Hard Costs / Acquisition

Construction costs rising faster than inflation and incomes:

- ❖ Severe labor shortages in the construction industry
- ❖ 73% of WI construction firms have labor shortages
- ❖ Increase in material prices
- ❖ Increase in site Development costs

“Rising construction costs mean that all forms of housing are becoming more expensive and less available. This creates barriers to homeownership and to rental affordability.”

Wisconsin Realtors Association Q1 2020

Hard Costs / Acquisition

Assumptions:

- 36 ft wide street, face to face of curb
- Parking on both sides
- 24-inch curb and gutter
- 3-inch asphalt pavement
- 5 ft wide concrete sidewalk on one side

Exclusions:

- No storm water pond construction
- No rock excavation
- No dewatering
- No street lighting
- No electrical, gas, telecom, etc.

Hard Costs / Acquisition

Average public infrastructure construction cost per foot *:

	1998	2008	2018
Street	\$80.02	\$134.28	\$224.67
Sidewalk	\$9.94	\$16.97	\$21.78
Watermain	\$36.25	\$70.28	\$109.74
Storm Sewer	\$26.12	\$35.00	\$78.91
Sanitary Sewer	\$32.19	\$53.94	\$90.23

*Costs do not include Engineering Design – (typically 15% – 18%)

Hard Costs / Acquisition

Average Total Cost Per Year for a “Typical City Block” (330 feet)

Avg cost per 330 ft	1998	2008	2016	2017	2018
Total Construction	\$60,891	\$102,455	\$152,462	\$172,194	\$173,356
Costs Per Foot	\$185	\$310	\$462	\$522	\$525

Public infrastructure costs per lot based on per foot costs

Infrastructure cost	1998	2018
100' wide lot:	\$9,200	\$26,250
80' wide lot:	\$7,380	\$21,000
50' wide lot:	\$4,600	\$13,125

Soft Costs

Outdated Land Use Regulations


- ❖ Zoning that is too restrictive can compound the housing shortage
 - ❖ Lowers supply of housing units
 - ❖ Land becomes more expensive
 - ❖ Forces construction of more expensive homes
- ❖ Zoning ordinances should be reviewed for:
 - ❖ Density requirements
 - ❖ Lot size
 - ❖ Parking requirements
 - ❖ Lot width

Sample Chippewa County Project Underwriting Assumptions

Sources

- ❖ First Mortgage → \$4,852,109 (market financing at 4.8% - 35 Am 35 Term)
 - The project can only support a limited first mortgage (~45%) due to rental income needed to ensure affordability.
- ❖ **GAP → \$5,792,401 (55% of total development cost)**

Possible Ways to Reduce a Gap

- Raise Rents
 - TIF
 - Low Income Housing Tax Credits (targets households 50-80% CMI)
 - Other soft funding
 - Equity
- 

Sample Chippewa County Project

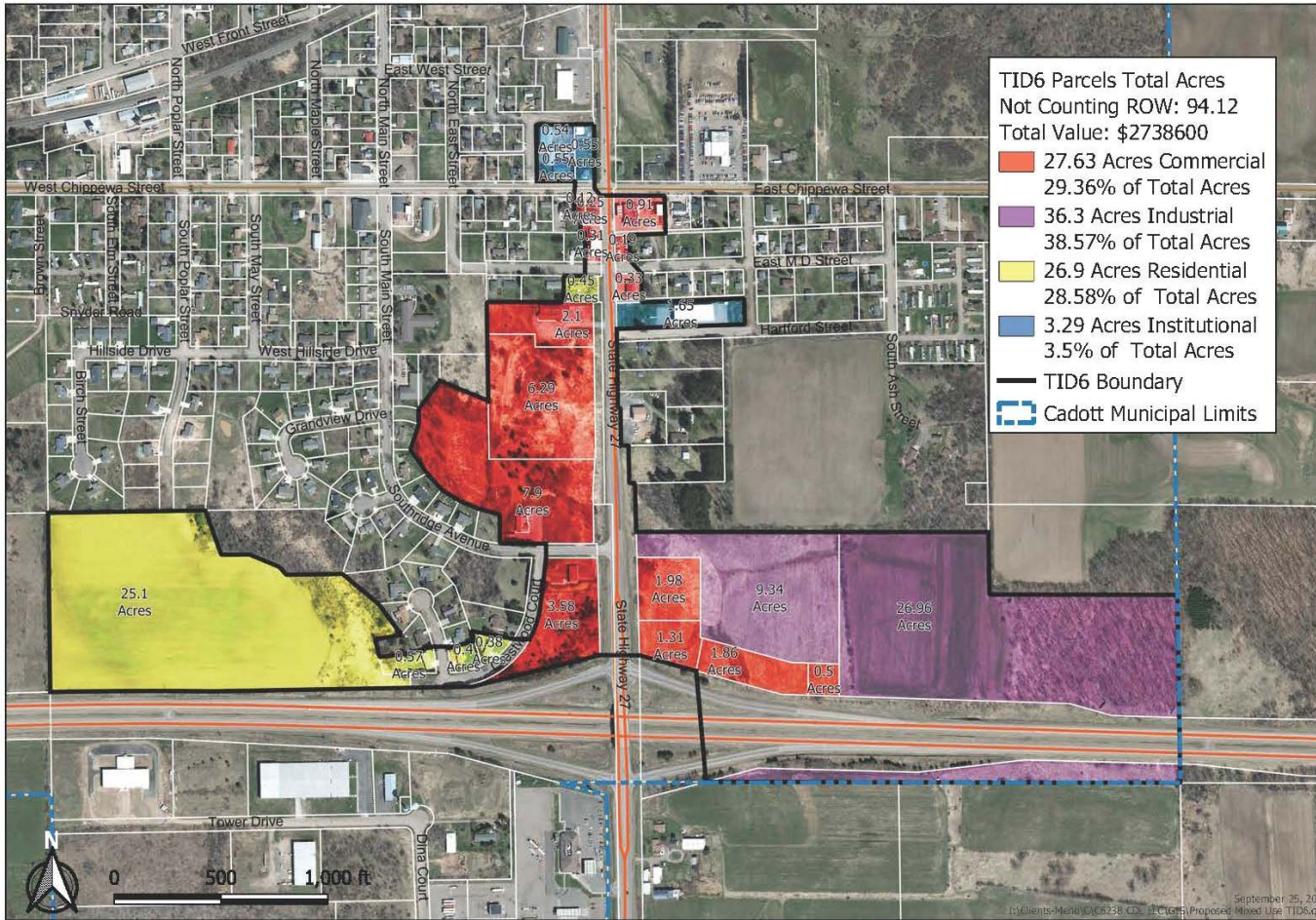
Underwriting Assumptions – Raise Rents

- ❖ Rents would have to increase **70%**.
- ❖ In raising the rents to this level they would no longer be workforce or affordable housing.

- ❖ Increased rents would be:
 - 1 BR – \$1,165 - \$2,490 (Monthly incomes of \$3,495 - \$7,470)
 - 2 BR – \$1,400 - \$3,000 (Monthly incomes of \$4,200 - \$9,000)
 - 3 BR - \$1,620 - \$3,450 (Monthly incomes of \$4,860 - \$10,350)

Sample Chippewa County Project Underwriting Assumptions - TIF

- Communities are hard pressed to maintain their existing infrastructure much less invest in the new infrastructure that is needed to support new housing.
- For many communities Tax Increment Financing is the only method to offset the costs of installing public utilities in support of housing
- Currently State law only allows newly platted residential in a mixed-use Tax Incremental Districts (“TID”)
 - no more than 35% of the total area comprising the district can be developed for housing.
 - greatly reducing the amount of housing units that can be constructed while increasing the burden that each lot must carry to offset the needed infrastructure.



**Proposed TID #6 Mixed Use Boundary Map
Village of Cadott, Chippewa County WI**



Hard Costs / Acquisition

Solving for \$346,712 in Infrastructure Needs or Gap Funding

Tax Incremental Financing		
Millrate		\$20.00
Interest Rate		3.00%
Construction Cost (50-unit multi-family)		\$11,500,000
Assessed Value (using income approach)		\$3,500,000
Taxes Per Yr.		\$70,000
Increment		
	5 yrs.	\$186,636
	7 yrs.	\$302,176
	10 yrs.	\$463,171
	20 yrs.	\$907,480

Sample Chippewa County Project Underwriting Assumptions 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**

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.*

Low Income Housing Tax Credits Timing – Sample 2020 Project

Assuming application in December 2020:

- ❖ Site Control/Development Agreement: October 2020
- ❖ Site Zoned: November 2020
- ❖ WHEDA Tax Credit Application: December 2020
- ❖ Award of tax credits: March 2021
- ❖ Architectural Plans: March 2021 – September 2021
- ❖ Financial Due Diligence Period: June 2021 - November 2021
- ❖ Financial Closing and Construction Start: December 2021
- ❖ Construction Completion: December 2022 – Two years from application

Sample Chippewa County Project

Underwriting Assumptions – Other Sources

- HOME Funds (State or Local)
- Municipal Funds (Affordable Housing Funds, etc.)
- Federal Home Loan Bank Affordable Housing Program (AHP)
- CDBG & Housing Trust Funds
- Historic Tax Credits (State & Federal)
- Energy / Solar Grants
- Brownfield Grants
- HUD Grant Programs (CNI, Section 811, etc.)
- Project-Based Section 8 Vouchers
- WHEDA Subordinate Loans
- Deferred Developer Fee
- Seller note/land donation

Many of these sources are ONLY available to affordable housing developments.

Sample Chippewa County Project Underwriting Assumptions – Other Equity

Source does not exist for funding 60% of Total Development Cost regardless of Rate of Return.

Movin' Out: Elven Sted Apartments – Stoughton



Movin' Out: Elven Sted Apartments – Stoughton

33 units of mixed-income apartments with 11 targeted to households where one family member has a permanent disability.

Worked with City to plan and develop city-owned site as part of the City's Downtown Redevelopment Plan.

Sources of Financing – TOTAL DEVELOPMENT COST \$7,344,000

First Mortgage	\$640,000
9% Tax Credit Equity	\$5,550,000
Tax Incremental Financing (TIF)	\$428,000
City Discount on Land Sale	\$164,000
HOME Funds	\$372,000
State of Wisconsin Brownfield Grant	\$190,000



Movin' Out: Pioneer Ridge – Wisconsin Dells



Movin' Out: Pioneer Ridge – Wisconsin Dells

72 units of mixed-income housing with 18 targeted to households where one family member has a permanent disability.

City was very supportive of development and this project's success has led to a second development being funded and further supported by the City.

Sources of Financing – TOTAL DEVELOPMENT COST \$13,055,713

First Mortgage	\$2,675,000
9% Tax Credit Equity	\$7,234,277
Tax Incremental Financing (TIF)	\$715,000
WHEDA Second Mortgage	\$560,000
State HOME Funds	\$500,000
Federal Home Loan AHP Funds	\$675,000
Deferred Developer Fee	\$21,436



Questions?

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