CLOSING THE GAP: UNLOCKING RURAL HOMEBUILDING

RESPONDS TO AN IMPORTANT STATE HOUSING NEED

Rural communities across North Dakota face a persistent and well-documented barrier to housing development: the cost to build a home routinely exceeds its appraised value. This appraisal gap is a market failure, one that discourages new construction even where genuine demand exists, and where the consequences of inaction are most severe.

North Dakota has a unique rural landscape; approximately 25 to 35 percent of residents live in communities with populations under 5,000. In these communities, limited comparable sales, constrained local workforces, and higher per-unit construction costs make new housing economically unviable without targeted intervention. For years, the result was simple: virtually no new homes were built.

The human cost is significant. Older adults seeking accessible, single-level housing — one of the fastest-growing demographic segments in rural North Dakota — have routinely been forced to leave the communities they call home because no suitable housing options exist locally. Younger families and workforce households face the same constraints, creating a quiet but compounding cycle of population decline.

Recognizing this gap, North Dakota Housing Finance Agency (NDHFA) authored the Housing Incentive Fund (HIF) Single-Family Development Program to directly address the appraisal gap and enable housing construction where it would otherwise not occur. With the backing of NDHFA, the North Dakota Legislature appropriated and expanded state-funded HIF in 2023 to specifically support single-family development in rural communities.

DEMONSTRATES INNOVATION AND EFFECTIVE USE OF RESOURCES

The HIF Single-Family Development Program represents a targeted policy innovation in rural housing finance. Rather than fully subsidizing development — an approach that is costly and difficult to scale — the program provides precise gap financing that closes only the difference between construction cost and appraised value. This allows builders and lenders to move forward with projects that are otherwise financially infeasible, using the minimum public investment necessary to unlock private activity.

The efficiency of this model is striking. The average HIF subsidy per home is **$70,000**. Yet for every $1 invested through the HIF, the program is currently leveraging **nearly $15 in total housing development activity — a 15:1 return on public investment**. Homes supported through the program average $341,283 in sale price, demonstrating the program enables quality housing while maintaining financial feasibility in challenging rural markets.

The program also incorporates a deliberate design choice that addresses one of North Dakota's most pressing demographic challenges: it prioritizes single-level patio homes without steps. These homes are particularly well-suited for the state's aging population, enabling long-term rural residents to remain in the communities they have called home for decades rather than relocating to larger urban centers for accessible housing.

Each completed project generates a developer fee that flows directly to local nonprofit housing organizations, building organizational capacity and positioning these partners for continued future development. This structure creates a self-reinforcing ecosystem: each home built strengthens the local nonprofit infrastructure needed to build the next one.

ACHIEVES MEASURABLE RESULTS

Since launching in 2023, the program has generated significant and accelerating housing development activity across rural North Dakota:

Housing Development Pipeline

- 7 homes sold
- 16 homes under construction
- 16 homes in pre-development
- 12 rural communities benefiting from the program with high-level of interest in other areas of the state

Investment Impact

- $2.1 million in Housing Incentive Fund investment deployed
- $2 million in projects currently in due diligence
- More than **$14.8 million in total housing development activity generated**
- **15:1 leverage ratio** on public investment

While the number of homes may appear modest in absolute terms, the proportional impact within small rural communities is profound. In Hoople, North Dakota, two new homes represent approximately 1.82 percent of the town's total housing stock of 110 units. To achieve a comparable proportional increase in New York City, with approximately 3.7 million housing units, would require the construction of nearly 67,340 homes. **In rural North Dakota, two new homes revitalize a community.**

The program also catalyzes broader housing mobility within small communities. In one participating community, the construction of a new patio home enabled an older resident to remain in his hometown rather than relocate to a metro area. His purchase of the new home freed up his previous residence and **that single transaction ultimately triggered five additional home sales and moves within the community**. One home, five ripples.

Two nonprofit community housing development organizations in northeastern North Dakota moved quickly to deploy funds and their early success is already demonstrating the model's effectiveness and replicability across other regions of the state.

PROVIDES BENEFITS THAT OUTWEIGH COSTS

The economic impact of the program extends well beyond its housing outputs. In 2025, the estimated economic impact of purchasing a home in North Dakota is approximately **$97,500 in local activity** — wages, materials, and spending with local businesses. With seven homes already completed and sold, the program has generated an estimated **$682,500 in direct economic activity** in rural communities. As homes currently under construction and in pre-development are completed, the program is expected to generate **more than $3.4 million in additional local economic impact.**

Beyond construction, the program supports community stability: it prevents population loss, sustains local tax bases, and keeps longtime residents connected to their communities and support networks. Having a new home built, in some of these towns for the first time in years, has anecdotally boosted small-town pride. For rural North Dakota towns where every resident and every household counts, these are not marginal effects.

The program structure is straightforward and operationally efficient. NDHFA administers gap financing through an established fund with clear eligibility and underwriting criteria. Nonprofit partners identify community need, source projects, and manage local relationships. The model requires no new bureaucratic infrastructure and can be scaled with additional capitalization.

REPLICABILITY AND BROADER IMPACT

The HIF Single-Family Development Program offers a clear and replicable model for other states facing similar rural appraisal gap challenges. The core components are transferable:

- a state housing fund capitalized through legislative appropriation or tax credit contributions,
- a gap-financing mechanism sized to the difference between construction cost and appraised value, and
- a nonprofit partner network to deploy capital in communities too small to attract conventional developers.

The program does not require federal funding, complex tax credit structures, or large development teams. **Any state HFA with a flexible housing fund and rural nonprofit partners can adapt this approach.** The participating nonprofit organizations in North Dakota are already sharing lessons learned, and NDHFA has documented the model with replication in mind.

As Lisa Rotvold, Executive Director of the Red River Community Housing Development Organization, explains: **"Without this program, we simply would not be able to build homes in many of these communities.** The Housing Incentive Fund allows us to close the financing gap and bring new housing opportunities to rural North Dakota."

By closing the appraisal gap that has long prevented rural housing development, the HIF Single-Family Development Program demonstrates how targeted, efficient public investment can unlock housing production in markets where traditional development models do not work and provides a proven model other states can replicate.

NORTH DAKOTA
HOUSING INCENTIVE FUND
SINGLE-FAMILY
RURAL
DEVELOPMENT

- 12 COMMUNITIES
- 39 HOMES
- REVITALIZATION

HOOPLE

POPULATION 277
HOUSING UNITS 110
HIF HOMES ADDED 2

+1.82% OF TOTAL HOUSING STOCK

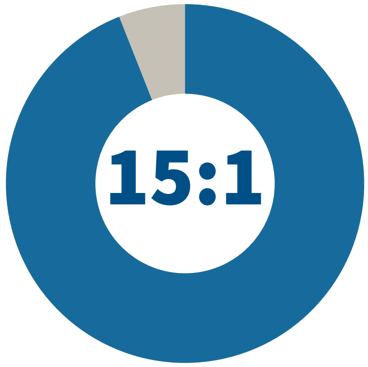
NYC

POPULATION 8.5M
HOUSING UNITS 3.7M

WOULD NEED 67,340 HOMES TO ACHIEVE THE SAME PROPORTIONAL IMPACT

IN RURAL ND
2 NEW HOMES *change*
A COMMUNITY

EVERY $1 OF PUBLIC INVESTMENT *generates* $15 IN TOTAL HOUSING INVESTMENT



AVERAGE SUBSIDY PER HOME	TOTAL INVESTMENT UNLOCKED	AVERAGE HOME SALE PRICE
$70,000	**$14.8 MILLION**	**$341,283**

WITHOUT HIF

~$411K CONSTRUCTION COST

~$341K APPRAISED VALUE

~$70K UNFINANCED APPRAISAL GAP

NO BUILD

WITH HIF

~$411K CONSTRUCTION COST

~$341K APPRAISED VALUE

AVERAGE $70K HIF SUBSIDY

HOME BUILT!

HIF MAKES
RURAL CONSTRUCTION
financially feasible

AND IT WORKS!

NORTH DAKOTA HOUSING INCENTIVE FUND SINGLE-FAMILY RURAL DEVELOPMENT

LAKOTA, ND

DEVILS LAKE, ND

HATTON, ND

Press Release

Regional Non-Profit Investing in Rural Housing

Red River Community Housing Development Organization has broken ground on the first of four new homes being built in Lakota and Larimore, North Dakota this summer. The effort, called Spark Build 2024, involves partnering with small communities and investing in new construction of speculative homes. The goal of Spark Build 2024 is to increase housing production in underserved rural communities at a time when the rural economy is poised for growth.

Lakota, ND, June 13, 2024

Local and regional leaders gathered in Lakota today to celebrate the start of construction on two new homes, being developed by the non-profit Red River Community Housing Development Organization (CHDO). The organization is embarking on this new initiative, known as Spark Build, to jump start production of new housing in rural communities experiencing business expansion.

The celebration included remarks from Red River CHDO Board Chair, Marcy Douglas, and others involved with the project. Attendees each added their signature to a wall stud in the homes. Red River CHDO is working with Tommy Gemmill, owner of Gemmill Custom Homes out of Fordville, on the build.

“We are happy to be at this stage, making this investment in Lakota’s future”, said Douglas. “Small town living offers such a great quality of life; we love our rural communities in the best state and in the best region of the best state!” Ground is expected to be broken on two more homes in Larimore in July.

The Spark Build initiative grew from a widespread shortage of housing in small towns in the region. Few new homes have been constructed in rural communities in northeast North Dakota in the past 20 years. Property values have remained relatively low, making it difficult to find comparable sales that support the value of new construction. The result has been a stagnant housing market.

The current demand for additional housing in small towns in the region is driven by employers trying to recruit workers for the many open positions they are trying to fill. Filling openings for teachers, nurses, diesel mechanics, manufacturing workers, and more, has been hampered by a lack of available housing. The overall vacancy rate in northeast ND hovers around 3% while a typical healthy vacancy would be 5-7%to support movement and growth in the market. A recent regional survey conducted by Fourth Economy, a Pittsburg, PA-based consulting firm, found that a lack of suitable housing was affecting 77% of business respondents in the region.

“Region 4 is on the cusp of extraordinary growth, with businesses expressing a need to hire hundreds of new employees today and longer term,” said Dawn Mandt, Red River Regional Council. “We need new housing to enable growth.”

This development work is being done alongside the Red River Regional Council, and Grand Forks Region EDC’s workforce development and recruitment efforts. Red River CHDO is hoping their development will spark additional construction by others.

Construction financing for the project is a combination of State Bank of Lakota, First United Bank, and the North Dakota Housing Finance Agency’s Housing Incentive Fund single family pilot program. The Lakota homes are expected to be complete this fall, with the two in Larimore expected to be completed in February 2025.

“I feel success happening here,” said Gemmill of the homes and the initiative. “There has been a lot of interest from the public. We have people stopping to check out this new construction.”

All four homes will use the same floor plan, but each will feature a unique color scheme. The 1,600 square foot, slab on grade homes will have three bedrooms, two bathrooms, and an attached two stall garage. Red River CHDO partnered with communities which donated lots. The cities will also offer new homebuyers a two-year tax abatement on the first $150,000 in value. Eight rural communities in Region 4 offered lots for the Spark Build homes. Lakota and Larimore were selected for the 2024 build based on their location along ND Highway 2, area business development, workforce needs, and the availability of a builder. The organization hopes to identify communities for Spark Build 2025 later this summer if additional funding can be secured.

“When we took a look at what was holding new home construction back in small towns, we identified several barriers,” said Lisa Rotvold, Red River CHDO Director. “The Spark Build initiative was designed to help mitigate some of those barriers. As a non-profit, we can take on some risk for the greater good that a private builder may not be ready to. By making this investment in rural communities we hope to spark the market. Our hope is that the private sector can step in and take it from there."

In response to challenges small markets have faced when trying to attract a builder, Spark Build initiative is designed to manage three barriers:

- #1. Perceived risk - Builders have been hesitant to take the risk of building speculative homes in small towns. With Red River CHDO serving as the developer of the homes, the Spark Building initiative mitigates that risk for the builder.

- #2. Profit - A small contract for a modest home generates a much smaller profit than a large custom build. Red River CHDO will bundle two or more homes under a single contract to get the value on par with a larger job and make it more attractive to builders.

- #3. Appraisal gaps – With little to no new construction happening, appraisals in rural communities are often based on sales of older lower value homes. Red River CHDO intends to continue to build a small number of homes under the Spark Building initiative each year, supporting a slow but steady stream of new construction, generating comparable sales, and hopefully sparking additional building by others.

About Red River CHDO:
Red River Community Housing Development Organization is a 501(c)3 non-profit organization serving Grand Forks, Nelson, Pembina and Walsh counties in northeast North Dakota. Based in Grafton, and co-housed with the Red River Regional Council, Red River CHDO works to identify and address housing and community development needs for underserved communities.

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