

Housing our Workforce: Workforce Housing Innovation Challenge

Rhode Island Housing

Rental Housing: Encouraging New Construction

HFA Staff Contact

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EXECUTIVE STATEMENT

There is a growing awareness of the challenges facing middle-income workers. Creating more affordable housing options for working Rhode Island families is essential to economic growth and development throughout the state. RIHousing's Workforce Housing Innovation Challenge (WHIC) program seeks to **expand the range of housing options available in Rhode Island through the creation of rental homes for households earning up to 120% AMI**. As an agency that furthers the state's economic development efforts through the jobs created by our investments, we are proud to also be able to provide the state's workforce with places to live.

STATEMENT OF NEED

Rhode Island is a state on the move. We've made great strides, working diligently to bolster the economy by creating jobs, attracting a talented workforce and investing in housing. These efforts are critical pieces of the State's economic development strategy. It is estimated that a workforce of 3.7 million people live within a 50-mile commute of Providence, the state's capital. With this employment growth comes a critical question: ***where will the people who fill these jobs live?***

In many cities across the country, it is increasingly difficult for middle-income workers (teachers, healthcare professionals, municipal employees, etc.) to buy or rent housing in the areas in which they work. This is due to both a lack of available housing options and wages not keeping up the increased costs of living.

A thriving community has a mix of housing types offered at a variety of price points. Rhode Island has done a good job deploying state and federal resources to develop housing opportunities for renters with incomes below 60% AMI. Currently, the state's housing stock and building activity aren't adequately addressing the 80% - 120% AMI housing market. The high cost of land, energy, labor, and materials, as well as burdensome regulations and restrictive zoning make it just as expensive to build in Rhode Island as it is to build in Massachusetts. With lower rents in Rhode Island, the math on rental housing projects for our workforce just doesn't work.

Like many states, in Rhode Island most new unrestricted housing has been built in the "luxury" segment of the market and housing targeted to people who cannot afford "luxury" rents has typically only been built when subsidies were available. However, subsidies are almost always reserved for units that serve families with incomes below 60% of AMI, about \$43,260 for a family of four in Providence. Households who need workforce housing may not always qualify for housing subsidized by the Low-Income Housing Tax Credit (LIHTC) program or the Housing Choice Voucher program (formerly known as Section 8), two major programs in place for addressing affordable housing needs. The term "workforce housing" is most often used to indicate a program targeted at households that earn too much to qualify for traditional affordable housing subsidies.

Even though a growing number of middle-income households are housing cost-burdened, ***there were no tools available to help create units for middle-income renters. Until now that is.***

RESPONSE TO NEED

In response to the need for a range of housing opportunities, RIHousing has developed the Workforce Housing Innovation Challenge (WHIC), a loan program to finance a limited number of innovative proposals to develop housing that is affordable to households earning from 80% up to 120% of the Area Median Income (AMI). The WHIC financing addresses the affordable housing needs of the state's

workforce, who are increasingly caught in the gap between rising market rents and ineligibility for other affordably assisted housing.

WORKFORCE HOUSING PILOT

WHIC provides financing for the development of rental housing serving households between 80% and 120% of Area Median Income (AMI). Up to \$80,000 per workforce housing unit with a maximum allocation of \$2.5 million per project is available at zero percent interest and deferred for thirty years. All workforce units must be equally dispersed among market rate units throughout the development. The program funds new construction or adaptive reuse. The rehabilitation of occupied rental housing currently operating without any affordability restrictions is also eligible for WHIC financing.

In awarding WHIC financing, RIHousing has identified the following priorities for projects:

1. Located in Rhode Island's designated Opportunity Zone census tracts across fifteen municipalities and the I-195 redevelopment land parcels.
2. Incorporate innovative design features such as higher density development, utilization of public land, commercial linkage fees such as employer housing investment and municipal zoning waivers.
3. Propose replicable financing and ownership structures that leverage both private investment and public subsidies to ensure long-term affordability.
4. Promote successful ongoing relationships between private enterprise and public agencies.
5. Provide workforce housing opportunities at the lowest cost.
6. Incorporate energy efficient design.
7. Where comparable market rents exceed an average of 80% AMI, each workforce unit will receive one (1) bonus point for every 10 basis point differential between a) the workforce unit's rental restriction as a percentage of AMI and b) the same unit's market rate rent as a percentage of AMI. These bonus points are unlimited and intend to award the projects that "buy-down" the greatest workforce affordability.

Additionally, prioritization is given to developments with:

- Housing is located within a state designated Opportunity Zone
- Housing is located within 2 miles of a large (>100 employees) employer
- Housing is located within walking distance to public transit

Round 1 made \$7 million in WHIC funds available and Round 2 will make \$8 million available.

OUTCOMES TO DATE

To date, **RIHousing has rolled out two funding cycles. The interest in and need for these types of homes is strong, as illustrated by the over \$13 million in requests in Round 1 and \$12.4 million requested in Round 2.**

RIHousing issued a Request for Proposals for Round 1 in late 2019 and received 8 proposals. Given that Readiness to Proceed is an important Threshold Criteria, only 2 awards were made. A total of \$3.4 million in funds was awarded to two developments in Providence, our state's capital, to assist the construction of 93 rental units, 38 of which are workforce assisted. The second round RFP is in process and applications are currently under review.

Parcel 6 – Providence: A mixed-use and mixed-income development on Parcel 6 of the land freed up because of the relocation of Interstate -195 (Rhode Island’s version of the “Big Dig”) on land now known as the ‘Innovation and Design District.’ The development to be known as Link Street, LLC will support 62 apartments of which 31 will be workforce units for households with incomes between 80% and 120% of AMI, and 31 will be market rate. The development also features a 13,000 square foot grocery store, the first in downtown Providence, and more than 9,500 square feet for additional commercial or retail use. Total development cost is \$28,609,500 or \$345,900 per unit; \$2,480,000 in WHIC funds.

West Fountain – Providence: The re-development of a site on West Fountain Street formerly used for auto repairs. The re-development will consist of a new four-story building with 31 one-bedroom units of which 7 will be workforce units at 100% of AMI and the remainder will be market rate. Total development cost is \$5,125,000 or \$165,323 per unit; \$560,000 in WHIC funds.

Today’s high demand paired with low supply has driven housing prices up and out of reach for many middle-income workers, and many local governments are exploring and implementing strategies to stimulate the creation of workforce housing. The WHIC program is one important tool that helps respond to the need for middle-income housing by filling a growing and significant gap in a tight housing market of rising rents that is being exacerbated by the COVID-19 pandemic.

WHY IT’S AWARD-WORTHY

- **Innovative:** The WHIC program is filling a gap in the housing market for a large swath of workers who make too much to reside in LIHTC housing but cannot afford the quickly rising market rate apartments in Rhode Island.
- **Replicable:** The program is funded from corporate earnings as a demonstration program with a goal of having the program adopted and funded on a larger scale by the state. The maximum amount of WHIC funds for a project is \$80,000 per WHIC unit or \$2.5 million.
- **Responds to an important state housing need:** There is a growing awareness of the challenges facing middle-income workers. Creating more affordable housing options for working Rhode Island families is essential to economic growth and development throughout the state.
- **Demonstrates measurable benefits to HFA targeted customers:** The new program helps RIHousing address changing market needs and fulfill its mission to provide housing options for all Rhode Islanders.
- **Has a proven track record of success in the marketplace:** Current RFP in process included 11 applications seeking more than \$12 million of WHIC funds
- **Provide benefits that outweigh costs:** This is not taxpayer money. RIHousing is a self-sustaining entity and supports this program with its own resources.
- **Demonstrates effective use of resources:** The maximum amount of WHIC funds per subsidized unit is \$80,000 up to \$2.5 million and is part of a capital stack that typically includes a loan(s) from commercial banks and equity from the borrower.
- **Effectively employs partnerships:** Proposals funded to date are true public-private partnerships with commercial lenders and borrowers providing the primary financing and the WHIC funds filling a targeted gap.
- **Achieves strategic objectives:** To date, the pilot funding program has provided critical funding to two developments to create almost 40 Workforce units, helping the agency meet the goal to include middle-income residents as part of the state’s housing agenda. Applications for 11 projects with 672 units, of which 161 will be workforce, are currently under review.

One of two developments funded through the first round of WHIC funding, “Parcel 6” (aka Link Street LLC) is a mixed-use and mixed-income development in an area of our capital city known as the Innovation and Design District.



The development includes 62 apartments, of which 31 will be workforce units for households with incomes between 80% and 120% of AMI, and 31 will be market rate. The development also features a 13,000 square foot grocery store, the first in downtown Providence, and more than 9,500 square feet for additional commercial or retail use.



The second development to receive WHIC funds stands on a major thoroughfare in Providence and was formerly used for auto repairs. The re-development will consist of a new four-story building with 31 one-bedroom units of which 7 will be workforce units at 100% of AMI and the remainder will be market rate.





Program Guidelines

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Workforce Housing Innovation Challenge Loan Program

STATEMENT OF NEED
Rhode Island is a state on the move. We've made great strides, working diligently to bolster the economy by creating jobs, attracting a talented workforce and investing in housing. These efforts are critical pieces of the State's economic development strategy. It is estimated that a workforce of 3.7 million people live within a 50-mile commute of Providence.¹

With this employment growth comes a critical question: where will the people who fill these jobs live?

A thriving community has a mix of housing types offered at a variety of price points. Currently, the state's housing stock and building activity aren't adequately addressing all segments of the housing market. The high cost of land, energy, labor, and materials, as well as burdensome regulations and restrictive zoning make it just as expensive to build in Rhode Island as it is to build in Massachusetts. With lower rents in Rhode Island, the math on these projects doesn't work.

In recent years, most new housing has been built in the "luxury" segment of the market.² Housing targeted to people who cannot afford "luxury" rents has been built, but typically only where subsidies were available. However, subsidies are almost always reserved for units that serve families with incomes below 60% of AMI, about \$43,260 for a family of four in Providence. Even though a growing number of middle-income households are housing cost-burdened (27.7%)³—there are no subsidies to help create units for middle-income renters.

RESPONSE TO NEED
In response to the need for a range of housing opportunities, RIHousing has developed the Workforce Housing Innovation Challenge (WHIC), a loan program to finance a limited number of innovative proposals to develop housing that is affordable to households earning from 80% up to 120% of the area median income ("AMI"). The WHIC financing will address the affordable housing needs of the state's workforce, who are increasingly caught in the gap between rising market rents and ineligibility for other affordably assisted housing.

¹ Analysis of American Community Survey 2017 5-yr sample. Total labor force.
² Analysis of CoStar database. Average asking rent for 2-bed units built 2013-2018, statewide. "Luxury" defined as rent above \$1800, the approximate affordability threshold for median-income households.
³ Analysis of American Community Survey 2017 5-yr sample. Homeowners and renters combined, statewide.

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Workforce Housing Innovation Challenge Loan Program Guidelines

PROGRAM REVIEW CRITERIA
In awarding WHIC financing, RIHousing has identified the following priorities for projects:

- Located in Rhode Island's designated Opportunity Zone census tracts across the following fifteen municipalities: Bristol, Central Falls, Cranston, Cumberland, East Providence, Narragansett, Newport, North Providence, Pawtucket, Providence, South Kingstown, Warren, West Warwick, Westerly, and Woonsocket (see Attachment B) and the 355 land parcels.
- Incorporate innovative design features in the development. These innovative design features may include higher density development, utilization of public land, commercial linkage fees such as employer housing investment and municipal zoning waivers.
- Propose replicable financing and ownership structures that leverage both private investment and public subsidies to ensure long-term affordability.
- Promote successful ongoing relationships between private enterprise and public agencies.
- Provide workforce housing opportunities at the lowest cost.
- Incorporate energy efficient design; projects will be measured against National Grid's RRC Tier II standards.
- Where comparable market rents exceed an average of 80% AMI, each workforce unit will receive one (1) bonus point for every 10 basis point differential between a) the workforce unit's rental restriction as a percentage of AMI and b) the same unit's market rate rent as a percentage of AMI. These bonus points are unlimited and intend to award the projects that "buy-down" the greatest workforce affordability.

Threshold Criteria
To be considered for WHIC financing, projects must meet the following threshold criteria:

- At least 20% of the project units must be affordable to residents earning less than 100% of the area median income.
- A project must include at least 10 apartments.
- Applicant must demonstrate site control.
- Applicant must demonstrate experience and capacity to develop and operate the development.
- Applicant must demonstrate that the project can close on all equality, construction and permanent financing and commence construction within 24 months of the award of financing.

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Applications must pass Threshold to be considered under the Scoring Criteria.

Scoring Criteria

Responsiveness to Workforce Housing needs - Up to 15 points
<ol style="list-style-type: none"> Housing is located within a state designated Opportunity Zone (5 points) Housing is located within 2 miles of a large (>100 employees) employer (5 points) Housing is located within walking distance to public transit (5 points)
Leveraging - Up to 20 points
<p>WHIC investment per affordable unit is:</p> <ol style="list-style-type: none"> less than 10% of the total development cost of a unit. (20 points) less than 15% of the total development cost per unit. (15 points) less than 20% of the total development cost per unit. (10 points) less than 25% of the total development cost per unit. (5 points)
Readiness to Proceed - Up to 20 points
<ol style="list-style-type: none"> Project has 100% plans and specifications and building permits secured or no building permits necessary (20 points) Project is fully permitted with building permits secured - plans and specifications are 75% complete (10 points) Project has master, preliminary and final plan approval (5 points)

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Term Sheets

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Workforce Housing Innovation Challenge ("WHIC") Loan Program Term Sheet

Eligible Applicants: For-profit and non-profit developers.

Eligible Activities: New construction or adaptive reuse for rental. Rehabilitation of occupied rental housing currently operating without any affordability restrictions is also eligible for WHIC financing.

Affordability Term: Minimum of 30 years.

Maximum Loan Amount: The maximum loan amount per project will be the lesser of \$2,500,000 or \$80,000 per assisted workforce housing rental unit, but in no event can it exceed 25% of the total development cost (TDC). In certain markets, and subject solely to the approval of the Executive Director, RIHousing will consider adjusting the amount of WHIC financing allocated to a project to allow for an increase in the total number of workforce housing units.

LTV: The principal amount of the Loan shall be subject to senior lender's loan-to-value (LTV) requirements. All-in (including RIHousing subordinate financing) LTV shall not exceed 90%.

Qualified Expenditures: Loan funds can only be used for qualified expenditures. Qualified expenditures generally include acquisition, construction of improvements, site costs, and related financing costs. Ineligible costs include, but are not limited to staffing costs, resident programs, reserves and non-residential expenses.

Interest Rate: 0%, non-amortizing deferred payment loan.

Origination Fee: 1% of the WHIC Loan Amount paid at closing and deducted from the total WHIC Loan proceeds.

Maturity: 30 years; due upon the earlier of:

- Maturity;
- Sale or refinancing of the property; or
- Upon foreclosure or default under the regulatory restriction.

Disbursement Schedule: Monthly

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Right of First Refusal (ROFR) for Permanent Loan: RIHousing will have the opportunity to provide the permanent financing by matching the terms and conditions of the commitment of permanent financing from another lender.

Due Diligence: Prior to Closing, RIHousing shall conduct a due diligence review of documentation relating to the proposed financing structure including loan documents, senior lender's closing agenda items, title insurance policy and borrower financial statements.

Reserves: Shall be subject to senior lender's customary requirements.

Disbursement of Proceeds: RIHousing's loan funds shall be disbursed in conjunction with construction completion and shall be subject to the senior lender's customary construction disbursement procedures including inspection by a third-party architect and receipt of title endorsements. Borrower equity of a minimum of 10% of total development costs must be invested prior to any disbursement of RIHousing's loan proceeds.

General Contractor: The general contractor must be satisfactory to the senior lender in all respects. Contractor to provide a guaranteed fixed price contract.

Required Affordability: All units assisted under the program must serve households with gross annual income at or below 120% of area median income (as defined by HUD). A minimum of 20% of units must serve households at or below 100% of area median income. Rents must be set at the applicable area median income(s) established for the development. All workforce units must be equally dispersed throughout the development.

Compliance Monitoring: To ensure compliance with program regulations, the property and restricted units will be subject to physical inspection and review of tenant files once every three (3) years. The owner will be required to submit current tenant occupancy information on all restricted units through RIHousing's online compliance portal. Annually, the owner will also provide RIHousing with a schedule of rental charge for all units. Income eligibility shall be determined in accordance with HUD Handbook 4350.3.

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Additional Conditions: Additional closing conditions shall include but not be limited to the following:

- Satisfactory receipt, review and acceptance of senior lender's appraisal and market study.
- Review and acceptance of the final Project Budget.
- Satisfactory receipt and review of plan and cost review by senior lender's inspecting architect.
- Receipt and review of Borrower's ownership structure and documents.
- Satisfactory receipt and review of environmental protocols.
- Receipt and review of all permits and approvals for Project.

Financial Reporting: Final loan documents to include:

- Financial statements for Borrower and Project, upon request.

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