

indieDwell Modular Housing and Economic Development Initiative

Virginia Housing
Special Achievement

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Virginia Housing indieDwell Initiative - Special Achievement Category

Brief Description

On December 5, 2018, Virginia Housing (VH) initiated a partnership (Initiative) with indieDwell (ID), a Public Benefit Corporation and a Certified B Corporation with a mission to manufacture healthy, durable, energy efficient, sustainable modular housing specifically to solve the affordable housing crisis. The company currently has manufacturing facilities in Caldwell, Idaho and Pueblo, Colorado, and is actively expanding to other states.

The Initiative's goal was to bring an ID manufacturing facility (Facility) to Virginia to address, achieve or find solutions for the following:

- address severe shortage of housing inventory available to the first-time homebuyer;
- address shortage of skilled tradesmen by ID's strong commitment to train unskilled persons and persons who experience difficulties in securing employment such as ex-offenders;
- ensure quality and energy efficient modular housing availability at an affordable price
- provide economic stimulus in a time of economic contraction through the construction and financing of the Facility; and
- generate employment for over 200 people when the Facility becomes fully operational.

The Initiative has included the purchase of units for display at conferences in 2019 in Richmond and Hampton, Virginia, as well as Washington, D.C. One of the units was put on a foundation in the Blackwell neighborhood in Richmond and sold to a 58-year-old minority first-time homebuyer who also elected to take advantage of VH financing and down payment assistance programs. One of the appraisals indicated that at closing, the owner had approximately \$20,000 of equity in the home, and the mortgage payment was cheaper than the rent she had been paying. The other unit will be put on foundations in Newport News very shortly (delayed due to the pandemic) and sold to low and moderate income persons.

Why the Program is Meritorious and Meets NCSHA Award Judging Criteria

Criteria 1 - Innovative

The Initiative required VH staff to adopt an economic development perspective and apply such perspective to its housing goals. Furthermore, fully implementing the Initiative required VH to be innovative in its approach as follows:

Due Diligence of ID

VH staff made a trip to Idaho to meet ID's founders, tour factory, and assess product quality and energy efficiency, as well as to learn about ID's corporate culture and commitment to paying a living wage with benefits coupled with profit sharing and ownership for all employees. VH learned that ID's commitment also extends to the environment, social responsibility, and the training of unskilled workers in the various trades related to the construction of its modular units.

After extensive due diligence, VH decided to initiate a partnership with ID with the goal of bringing an ID Facility to Virginia. Such partnership would entail an equity investment and the financing of the Facility.

First Time Use of Highly Unique and Flexible Bond Resolution Provision for Equity Investment

The Virginia ID ownership entity is capitalized as follows: ID owns 40% share; ID employees own a 20% share, and the 40% balance is owned by external investors. VH purchased a 30% (75% of the 40%) equity interest for \$1.5 million dollars. An additional investor invested \$0.5 million for a 10% equity

interest (25% of the 40%). VH's equity investment is passive and VH is not involved in Facility management or operations.

Over the years, VH has spent a great deal of time modernizing various provisions of its bond resolutions to provide VH maximum flexibility in its operations. One example is the definition of permissible investments, which was updated over 20 years ago to allow for the purchase of equity interests. VH's equity investment in ID was the first ever use of this provision.

Novel Use of Mixed Use Mixed Income Statutory Authority for Facility Financing

VH's enabling legislation was amended in 2004 to permit the financing of economically mixed use and mixed income developments (MUMI) **and any nonhousing buildings** that are incidental to such developments or that are determined by the local governing body to be necessary or appropriate for the revitalization of such designated area. VH is using its MUMI legislative authority to provide financing for the Facility, the first such use in its history.

The residential component of the MUMI aspect of the Initiative includes the expected development of homeownership and rental housing units in the Facility's jurisdiction with an aggregate total square footage of residential space in excess of the Facility's square footage. It is currently anticipated that the Facility will be operational by early 2022.

Unique First Time Use of REACH Virginia Funds

As a further incentive to locate a Facility in Virginia, VH agreed to provide ID a grant from its internally generated REACH Virginia funds equal to \$2,000 per job created, subject to a maximum aggregate grant of \$500,000. This was the first time in the 16-year history of the REACH Virginia program that a grant was awarded based upon the amount of jobs created.

Expansion of Financing Options for Modular Housing including ID Modular Housing

In anticipation of an ID Facility coming to Virginia as well an expectation of increased demand for modular and manufacturing housing demand in general, VH elected to expand its financing options for such housing as follows:

- Since 1994, VH has offered a second mortgage program in conjunction with an FHA-insured first mortgage loan to provide down payment and closing costs assistance. In anticipation of increased demand for mortgage loans for modular housing (such as ID's housing) and manufactured housing that may not qualify for FHA insurance, VH recently expanded its second loan program to include conventionally insured loans.
- Designed and implemented a single close loan program for modular and manufactured housing in order to streamline the process and reduce costs to the borrower.
- Engaged with Freddie Mac to access its CHOICEHome financing program for modular and manufactured housing.

VH Embracement of Modular Housing Characteristics

For modular housing, a Certificate of Occupancy is awarded at the factory upon completion of a unit's construction. This process allows for an easier deployment of these housing units across Virginia jurisdictions. Modular housing units are also built to comply with the International Residential Building code and are placed on permanent foundations. VH fully expects that the value of ID modular housing units will track, or even exceed, the value of comparable stick-built housing in the neighborhoods such units are placed.

Selection of Partner Jurisdiction for Facility Site

The Facility's location is in a Low to Moderate Income Community Census tract, a Virginia State Enterprise Zone Designation, a designated New Markets Tax Credit location, and in an Opportunity Zone. The site has the additional benefit of being adjacent to Newport News' Choice Neighborhoods Initiative which was awarded a \$30 million grant by HUD in 2019. Furthermore, the location is in close proximity to the Interstate Highway System which provides easy access to both urban and rural areas in the Mid-Atlantic Region. Lastly, VH worked collaboratively with local government officials as well as community advocates to address any concerns such stakeholder partners may have over zoning, job creation and other community impact.

Criteria 2 - Responds to important state housing needs

The Initiative responds to three important state housing needs:

- address severe shortage of housing inventory available to the first-time homebuyer (the Facility, when fully operational, will annually produce 320,000 square feet of housing per year, or in excess of 300 modular homes annually);
- address shortage of skilled tradesmen by ID's strong commitment to train unskilled persons and persons who experience difficulties in securing employment such as ex-offenders; and
- ensure quality and energy efficient modular housing availability at an affordable price (an ID home is 46% more efficient than a home built to the International Residential Code, and are constructed with material quality above Builder Grade).

The Initiative also responds to other important state needs such as (i) economic stimulus with the construction of the approximate \$10 million Facility, and (ii) employment with the Facility expected to employ over 200 associates, when fully operational.

Criteria 3 - Achieves intended results

VH firmly believes that its Initiative accomplishes each of the five objectives set forth immediately above under "Criteria – 2 Responds to important state housing needs," and as detailed further herein. While all such objectives are very important, the most pressing issue is with regard to the shortage of inventory for the buyer of affordable housing. The Facility will address this challenge directly by annually producing 320,000 square feet of housing, or in excess of 300 modular homes.

Criteria 4 -Provides benefits that outweigh the costs

VH believes the financial risk associated with its Initiative is far outweighed by its potential benefits, the foremost of which is addressing the shortage of quality, energy efficient, affordable housing. Other potential benefits such as addressing the shortage of skilled construction tradesmen through workforce training as well as job creation only add to the positive case for pursuing the Initiative. With regard to financial risk, VH fully expects that the dividends on its equity investment alone will fully offset its purchase price and the \$0.5 million grant for job creation. Any future sale by VH of its investment would only add to such investment's total return. Lastly, VH's investment will leverage a far greater amount of private capital investment (i.e., \$ millions of annual Facility revenues) once the Facility's units are produced and sold.

Conclusion

The current operating environment is challenging to say the least. Housing entities like VH need to explore non-conventional paths to further achieve their housing missions. VH's Initiative is one response to such challenging operating environment. The Initiative has been extremely successful so far, and VH expects the same success going forward. In addition to all the housing specific benefits discussed above, VH is more than pleased about the number of jobs created relative to the size of its equity investment. Lastly, it is quite satisfying to have formed a partnership with an entity like ID who shares VH's values and commitment to quality, energy efficient, affordable housing.

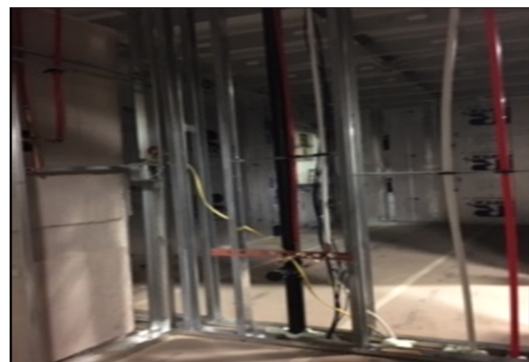
Visual Aids



Idaho Factory Material Storage



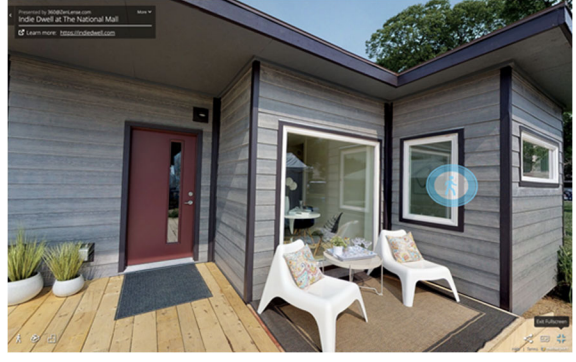
Cabinet Installation



indieDwell Units under Construction



indieDwell Co-Founders Pete Gombert (left) and Scott Flynn (right) and HUD Secretary Ben Carson at HUD Conference on Housing Innovation in Washington, D.C.



indieDwell Home on display at HUD Conference on Housing Innovation in Washington, D.C.



1st of 3 Components being Placed on Foundation.



Finished indieDwell Home on Foundation





Interior of indieDwell Home



indieDwell Home Blends in well with Blackwell Neighborhood in Richmond
Homes to the Left and Right of indieDwell Home