RURAL HOUSING TASK FORCE RECOMMENDATION

RURAL OPPORTUNITY

Opportunity is passing rural North Dakota communities by

Without new housing investment, rural communities are less equipped to welcome back those who want to return home, and attract the newcomers needed to keep the economy growing.

Challenges:

- Slow real estate markets, less activity, fewer comparable sales
- Wage disparities between rural and urban centers
- Cost of construction often exceeds appraised value
- Appraisal challenges and slow market make speculative development too risky for private developers
- Stagnation in home improvements has left existing housing stock outdated and unappealing to newcomers
- Lack of housing development and capacity in local non-profits

Solution: Housing Incentive Fund (HIF)

- Proven to be a highly effective and successful state funded program
- Flexibility to support the unique housing needs of our rural communities
- Fills financing gaps in developments that do not fully align with requirements of federally funded programs (smaller scale, wider band of incomes served) to make the economics of practical development work in rural communities
- Lighter compliance burden for small projects

LEGISLATIVE RECOMMENDATIONS

1. **Identify stable long term funding source** to ensure program stability and offer consistent funding opportunities to plan for suitable development
2. **Increase biennial funding** of HIF to no less than $50,000,000 for 5 biennia.
3. Allow use of HIF for **homeownership activities in rural areas.**

EXAMPLE: PARK RIVER

An existing development of rental twin homes in Park River is experiencing strong occupancy and demand. The owner also owns a lot next to the property that can accommodate four additional twin homes. The following example illustrates how HIF can be used to jump start this much needed development.

Assumptions

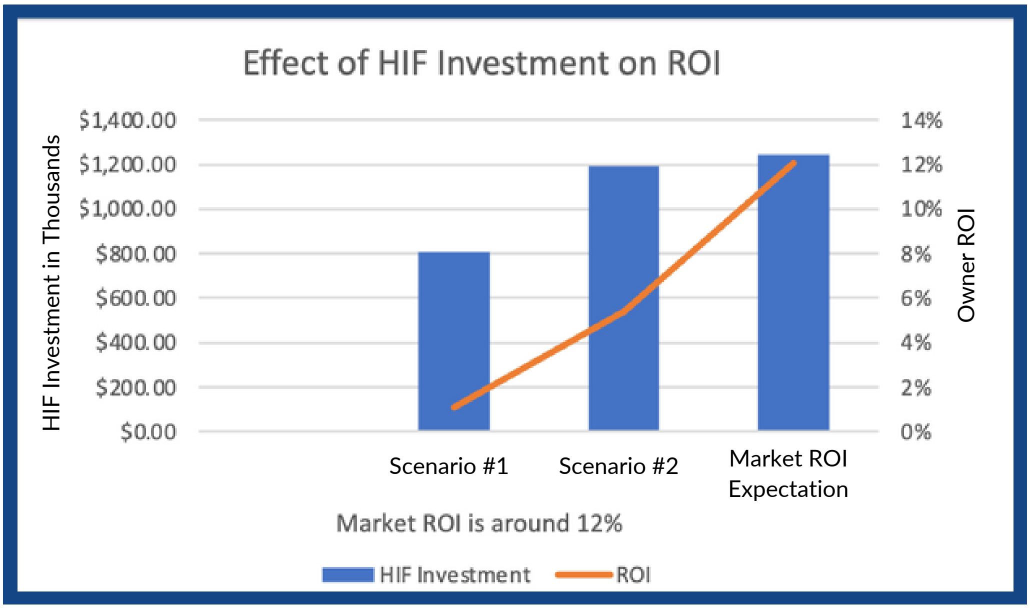
- 8 units (2 one BR, 4 two BR, 2 three BR) with attached garages
- Rents of $750, $1,000, and $1,250
- Underwriting with a 15% vacancy (given small deal size)
- Presuming bank loan with DCR of 1.2, and interest rate of 6% for 20 years
- Annual operating expenses of $5,250

Total Development Cost (TDC): $1,600,000

Sources of Funding

Sources of Funding - Scenario #1 Private Developer		
Owner equity (30%)	$480,000	30%
Bank Loan	$311, 408	20%
HIF Funding	$808,592	50%
TOTAL	$1,600,000	100%

Sources of Funding - Scenario #2 Non-Profit Developer		
Owner equity (30%)	$100,000	10%
Subsidized equity (HIF)	$380,000	20%
Bank Loan	$311,408	20%
HIF Funding	$808,592	50%
TOTAL	$1,600,000	100%



A development opportunity of this nature could be pursued by a private developer or a non-profit developer, as reflected in the two scenarios.
***All numbers and assumptions presented in the examples are examples for discussion purposes only.*

For small, rural developments, where Low Income Housing Tax Credits (LIHTC) aren't feasible, HIF is essential as a substitute for the dollars leveraged from that federal program.

Investing in economic and housing development in rural communities supports the urban-rural ecosystem that drives North Dakota's healthy and diverse economy