

**Item Title:** Affordable Housing Funds for Cottages of Idlewild in Raleigh, NC

**Specific Action Requested:**

**That the Board of Commissioners approves a loan of up to \$910,000 to support the construction of Cottages of Idlewild, a mix of affordable rental and homeownership duplexes to be located in Raleigh, NC.**

**All funding commitments are subject to terms and conditions acceptable to the County Attorney. In addition, all awards are contingent upon the development receiving local approvals including site plan approval and all necessary permits from the local municipality. All awards are contingent upon the basic terms as identified in the project descriptions, including funding commitments from the financial partners as identified.**

**Item Summary:**

**Purpose:** The Board of Commissioners approves all Wake County real estate transactions, including recommended funding commitments for low-income housing tax credit and non-tax credit applications.

**Background:** Wake County routinely considers affordable housing projects to recommend for non-tax credits. Non-tax credits applications are received on a rolling basis throughout the year. Raleigh Area Land Trust (RALT), a community land trust (CLT), Raleigh Raised Development and Haven Design have requested up to \$915,000 in construction and permanent financing to construct the Cottages of Idlewild, an 18-unit, mixed-tenancy ownership and rental development to be located at 301 Idlewild St., in downtown Raleigh. The City of Raleigh selected the applicants to develop these three city-owned parcels totaling 1.17 acres through a competitive process in 2021. The development will include seven for-sale units serving households earning up to 50% of the area median income (AMI), seven for-sale units for households earning up to 60% of the AMI, and four rental units serving households earning up to 30%, 60%, and 80% of the AMI. RALT will preserve all 18 units as affordable for at least 99 years and will reserve one rental unit for Wake County's Rental Assistance Housing Program (RAHP) voucher clients.

RALT will use deferred debt service payments and other sources to capitalize a repair reserve fund at \$150,000 within the first 10 years of the property's operation. RALT is also pursuing a partnership with Coastal Credit Union for a mortgage product for CLT homebuyers that would offer interest rates of up to 2.5% below prevailing market interest rates to allow homeowners to maximize the equity gained through their investment. Without below-market mortgages, Wake County's commitment would be up to \$770,000. The proposed below-market mortgages would require the removal of \$700,000 of

North Carolina Housing Finance Agency (NCHFA) homebuyer assistance from the project's funding sources. In this scenario, Wake County's commitment would increase to be up to \$910,000 with the remaining gap filled by increased home purchase prices and RALT fundraising. RALT would repay \$210,000 of this funding during the initial term, with the remaining \$700,000 remaining invested in the homeownership units to help preserve affordability. Homes would remain affordable to prospective buyers with the below-market interest rates and homebuyer assistance. In both scenarios, Wake County funding would be provided at 0% interest for 30 years with variable annual debt service payments and a balloon payment at the end of the term.

The table below illustrates the proposed funding scenarios for the property.

<b>Scenario</b>	<b>With CCU Below-Market Mortgages</b>	<b>Without CCU Below-Market Mortgages</b>
<b>Loan Type</b>	Construction to Permanent	Construction to Permanent
<b>Loan Amount</b>	\$910,000	\$770,000
<b>Interest Rate</b>	0%	0%
<b>Term</b>	30 years	30 years
<b>Repayment Terms</b>	Variable, Balloon	Variable, Balloon
<b>Equity Share</b>	1.5%	2.0% for 10 years, 1.5% after

At the February 6, 2024 meeting, the Raleigh City Council approved entering into a purchase contract to formally transfer ownership of the land to RALT as well as \$700,000 of gap financing to support the development. Assuming Wake County funding approval, RALT, Raleigh Raised, and Haven will begin construction in the second or third quarter of 2024 with estimated delivery in mid to late 2025. Staff recommend providing up to \$910,000 to support The Cottages of Idlewild through the Affordable Housing Development Program (AHDP).

Strategic Plan: This action supports Community Health and Wellbeing Goal 1: Create and preserve 2,500 affordable housing units by 2029.

Fiscal Impact: The Board previously appropriated funds for Affordable Housing Development Program proposals in the Housing Affordability and Community Revitalization Special Revenue Fund. Sufficient funding remains available.

### **Additional Information:**

RALT's funding application was responsive to Wake County's request for proposal criteria and met the County's threshold requirements of a complete application. RALT will set-aside one rental unit for Wake County Rental Assistance Housing Program (RAHP) voucher clients. The project, as underwritten, will maintain a debt coverage ratio above 1.15 throughout the term of the loan. RALT and its partners have raised a significant amount of funding via public, private and philanthropic organizations to support this project. The application was scored based on the following project evaluation criteria:

<b>Criteria</b>	<b>Points</b>
1) Project Viability	
a) Financial Feasibility	30
b) Development Quality	10
c) Development & Management Team	10
2) Wake County Policy Goals	
d) Target Populations	10
e) Deeper Affordability Targeting	30
f) Location	10
<b>TOTAL</b>	<b>100</b>

A goal of the Affordable Housing Development Program is to provide housing affordable to households earning 50% of the AMI or less. Of the 14 for-sale units in the development, seven will be sold to households earning up to 50% of the AMI. Of the four rental units, one unit will target households earning 30% of the AMI or less. All the homeowner and rental units will consist of a mix of two- and three-bedroom duplex units.

Homebuyers in the Cottages of Idlewild community will qualify for \$60,000 in home purchase assistance from the City of Raleigh. If Coastal Credit Union cannot offer below-market mortgages, homebuyers will also qualify for homebuyer assistance through the North Carolina Housing Finance Agency's (NCHFA) Community Partners Loan Pool (CPLP) program for an additional \$50,000. The CPLP program requires use of a specific mortgage originated through NCHFA at prevailing market interest rates. If Coastal Credit Union can offer below-market mortgages, homebuyers could not use CPLP with that mortgage product. In that scenario, \$700,000 of Wake County funding would remain with the homes to provide an additional \$50,000 of affordability for each homebuyer. In all scenarios, monthly principal, interest, tax, and insurance payments for homeowners would be affordable to households at 50% and 60% of AMI while offering significant discounts to fair market rents.

Through the community land trust model, RALT will maintain ownership of the land underneath the homes. Homebuyers will own their homes but lease the land from RALT for a nominal fee. Homeowners retain many of the rights and responsibilities of homeownership, including the ability to leave their property to heirs. Homeowners will only pay property taxes on the value of the home itself, not the underlying land. RALT will create a \$150,000 repair reserve fund for residents to be fully capitalized within the first 10 years of the property's operation through a \$25,000 commitment from the project budget, deferred payments on the Wake County loan, and additional financial partnerships if available. Finally, RALT will hire a Stewardship Coordinator in fall 2024

who will work with homeowners to address issues before they result in potential displacement. Because of the affordability of the homes as well as support provided by the land trust, foreclosure rates among shared equity homeowners are lower than among conventional homeowners.

In the shared-equity model, home price appreciation is limited to preserve the affordability of homes in perpetuity. RALT's ground lease caps appreciation at 1.5% of the homeowner's mortgage amount annually. This amount is added to the original sales price to determine the sales price to the next buyer and maintains the home's affordability. The 1.5% appreciation cap is also a floor – should there be a market downturn, homeowners would still be guaranteed the 1.5% return. If Coastal Credit Union cannot provide below-market mortgages, RALT will increase the equity share percentage to 2.0% for the first 10 years of homeownership at Cottages of Idlewild, which will revert to 1.5% thereafter. All prospective homebuyers are educated on the model and are fully aware of limitations when buying into the land trust. RALT currently maintains a waiting list of 13 prospective homebuyers and has an additional 10 households that have started the waiting list application process.

At sale, homeowners are entitled to their down payment, all their equity gained through mortgage principal payments, and their formula-calculated home value appreciation. Additionally, any forgiven homebuyer assistance will accrue to the homeowner as equity. Analysis has shown that shared-equity homeowners typically remain in their homes for six years or more, and that 58 percent of shared-equity homeowners who move choose to purchase another home.<sup>1</sup> After 10 years, homeowners at 50% of the AMI would realize returns ranging from \$75,882 to \$90,209 and homeowners at 60% of the AMI would realize returns ranging from \$91,645 to \$120,834. These return amounts are significant enough to allow a homeowner to make a down payment on the open market, and the affordability of the land trust units is maintained for the next low-income homebuyer.

The table below illustrates the breakdown of rental units at the proposed development. One unit will be set-aside for Wake County RAHP voucher clients.

Non-Tax Credit Development Proposal	Location	Unit AMI Level			Proposed Rent
		30%	60%	80%	
Cottages of Idlewild	Raleigh	1	2	1	\$519 - \$2,014

County loan terms will consist of 0% interest for 30 years with variable annual debt service payments and a balloon payment at the end of the term. During the permanent phase, Wake County would hold third lien position behind a loan from Self-Help Credit Union and a loan from NCHFA. The developers have also conducted a capital campaign to complete the capital stack with a combination of grants, and reimbursements. Approximate funding sources are illustrated in the table below. Total project cost and bank financing are subject to change between approval and closing.

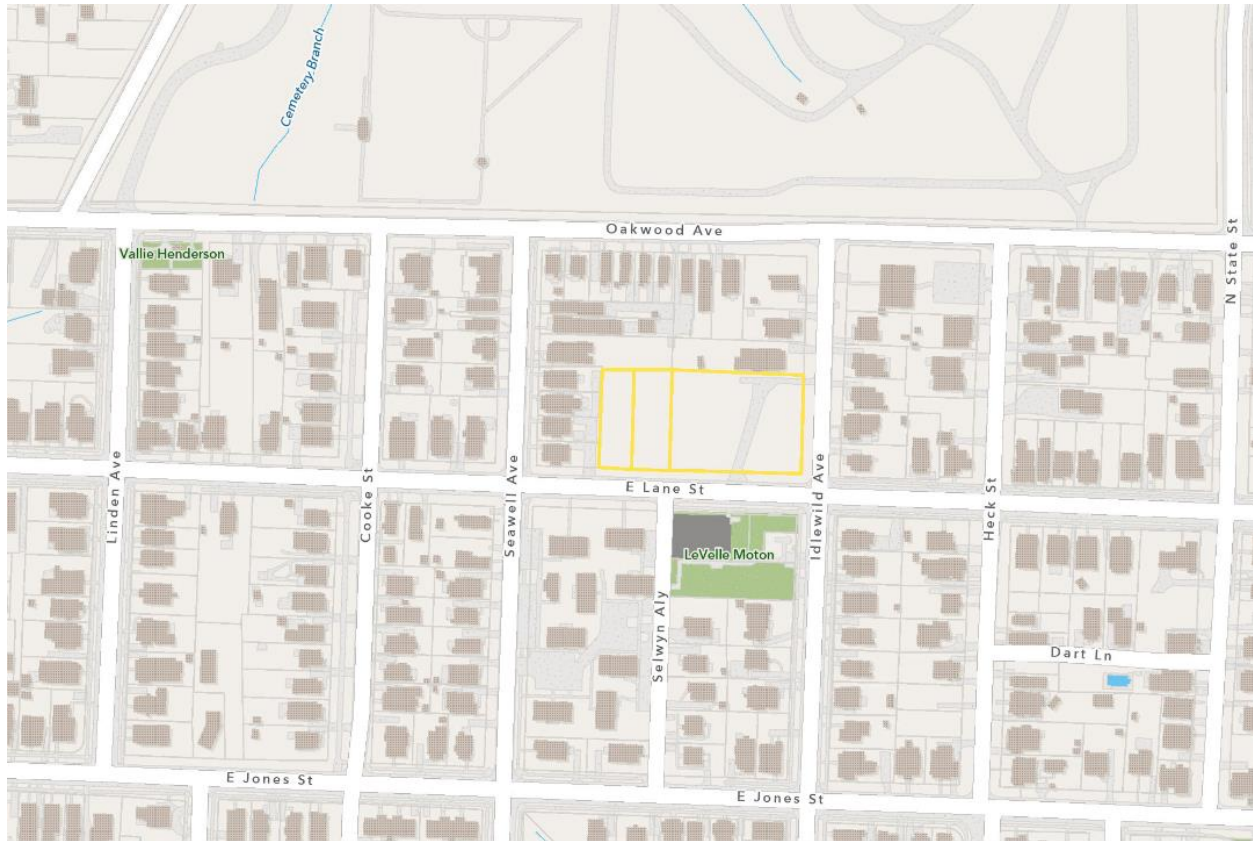
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<sup>1</sup> Wang, Ruoni, Claire Cahen, Arthur Acolin, and Rebecca J. Walter, 2019. "Tracking Growth and Evaluating Performance of Shared Equity Homeownership Programs During Housing Market Fluctuations." Working Paper. Cambridge, MA: Lincoln Institute of Land Policy.

<b>Cottages of Idlewild Capital Summary – No Below Market Mortgage</b>	<b>Construction Period Amount</b>	<b>Permanent Period Amount</b>
Self Help Credit Union Construction Loan (approximate)	\$ 4,400,000	
NCHFA Supportive Housing Development Program	\$ 938,000	\$ 938,000
<b>Wake County AHDP</b>	<b>\$ 770,000</b>	<b>\$ 770,000</b>
City of Raleigh	\$ 700,000	\$ 700,000
Grants	\$ 1,322,500	\$ 1,322,500
RALT Contribution	\$ 136,700	\$ 132,044
Raleigh Pipe Reimbursement		\$ 273,750
State Sales Tax Credits		\$ 154,906
Proceeds from Home Sales		\$ 3,976,000
<b>Total</b>	<b>\$ \$8,267,200</b>	<b>\$8,267,200</b>

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<b>Wake County AHDP</b>	<b>\$ 770,000</b>	<b>\$ 910,000</b>
City of Raleigh	\$ 700,000	\$ 700,000
Grants	\$ 1,322,500	\$ 1,460,844
RALT Contribution	\$ 136,700	\$ 136,700
Raleigh Pipe Reimbursement		\$ 273,750
State Sales Tax Credits		\$ 154,906
Proceeds from Home Sales		\$ 3,693,000
<b>Total</b>	<b>\$ \$8,267,200</b>	<b>\$8,267,200</b>

If approved, construction would begin in the second or third quarter of 2024 with an estimated 12-month construction period. A map of the project site is provided below.



**Attachments:**

1. Presentation
2. Affordable Housing Committee Meeting of 5-28-24 Presentation
3. Statements of Community Support
4. RALT Homebuyer Waiting List