Minneapolis NOAH Preservation Fund Program Guidelines

The Minneapolis Naturally Occurring Affordable Housing (NOAH) Preservation Fund is established to assist eligible preservation buyers in the acquisition and preservation of NOAH rental property in Minneapolis at risk of increased rents, protecting low-income renters occupying such housing that are at risk of involuntary displacement.

Definitions

Naturally Occurring Affordable Housing ("NOAH"): NOAH properties in Minneapolis are typically Class C properties: older properties that provide basic shelter without additional amenities with some capital investment needs.

- Rental housing projects provided by the private market without government subsidy that have at least 20% of the units with rents affordable to households with incomes at or below 60% of the area median income; or
- Rental housing projects that previously received local subsidy or low-income housing tax credits and have income and/or rent restrictions that will expire within the next five years; or
- Rental housing projects that previously enrolled in the City's 4D Affordable Housing Incentive Program and have income and rent restrictions that are either less restrictive or for a shorter period of time than would be enforced through the NOAH Preservation Fund restrictions.

Eligible NOAH Properties: NOAH buildings or portfolios of buildings in Minneapolis, with at least four housing units. Single family rental properties cannot be acquired through this program.

Affordable Units: rental housing units with rents and income restrictions at or below 80% AMI.

Eligible Borrower: Non-profit housing owner operators, or limited partnerships or limited liability companies in which the managing general partner or managing member is a non-profit corporation, or public agency, with a mission to provide long term affordable housing opportunities and demonstrated experience and capacity in owning and operating high quality and well managed affordable housing; the Land Bank Twin Cities, Inc; or for-profit housing owner/operators with demonstrated experience in real estate ownership, operations or development serving BIPOC (Black, Indigenous and People of Color) renters.

Terms of funding

- $3 million, or other amount authorized in the City Budget for this purpose, in one or more loans to Eligible Borrower(s) to be used in accordance with the criteria of the Fund as flexible, low interest, first loss money to assist with acquisition financing of NOAH properties
- Non-recourse loan secured solely by a subordinate mortgage
- Interest rate of 0% or 1%, structured as a deferred loan
- Term of 10 to 30 years. If a property is sold, a recorded affordability declaration will preserve affordability for the full length of the affordability period.
- Loan amount not to exceed $35,000 per affordable unit at or below 60% of AMI, and up to $40,000 per unit affordable at or below 50% AMI
- NOAH acquisitions will be funded on a first–come, first-served basis
- Projects that have at least 70% of the fair market value of the property financed by some combination of the following do not require CPED underwriting review: a first mortgage loan product insured or purchased by Freddie Mac or Fannie Mae; a first mortgage loan that is funded by

the US Treasury CDFI Bond Guarantee Program and/or; an equity fund established by a Community Development Financial Institution (CDFI).

- Projects that do not meet the financing guidelines above will be subject to CPED underwriting review, and must meet the NOAH Preservation Fund underwriting standards below.
- The Director of Community Planning and Economic Development (CPED) is authorized to approve loans administratively that meet the goals of the program and the criteria established herein.
- Upon CPED Director approval, the appropriate City staff will be authorized to execute loan documents prepared by the City Attorney's Office consistent with the requirements of these guidelines.
- Borrowers shall pay the City an origination fee equal to 1% of the loan amount.

NOAH Preservation Fund underwriting standards

1. **DCR:** Debt service coverage ratio: 1.11 minimum for year 1 and a minimum of 1.00 for years 2- 20.

   Should the project reflect negative cash flow, an operating deficit reserve account will be required to be capitalized at the initial closing to satisfy any deficit through year 20. Interest must also be included.

2. **Income and expense trend factor over 10-20 year cash flow:** Expense inflator should be at least 1% higher than the revenue inflator (e.g. 2% income and 3% expense inflator)

3. **Maximum rents:** The project rents for affordable units should not exceed the maximum rent allowed for the targeted income level. Rent and income restrictions are specified in the Program Guidelines.

4. **Management and Operating Expenses (excluding real estate taxes and reserves):** Expenses must be underwritten based on three years of previous operating expenses at the property or based on operating expenses at one or more comparable properties. Anticipated expenses should include the following expense categories, as well as any other property-specific expenses**:**

   A) General Administrative expenses (including marketing and leasing).
   B) Payroll salaries, payroll taxes, fringe benefits
   C) Utilities
   D) Maintenance and Repair (including turnover costs)
   E) Property Management Fee: Up to $75 per unit per month unless historical expenses support a higher property management fee

   Please include three years of comparable property audits or previous operating expenses audits to support operating expense budgets.

5. **Replacement Reserves:** Reserves for replacement guideline is $250-$350 per unit unless an independent capital needs assessment (CNA) is completed that supports a smaller amount of replacement reserves.

6. **Operating Reserves: If the project has negative cash flow,** the project will be required to capitalize an operating reserve account at closing with no less than six months of management and operating expenses and debt service.

7. **Vacancy Rate:** 5% minimum for residential/20% for Commercial. Project should be underwritten based on historic operations of the existing property, but the 5% minimum vacancy rate still applies.

8. **Rent roll:** a copy of the existing rent roll must be submitted. If current vacancy rate exceeds the proforma vacancy rate, a written marketing plan to achieve proforma vacancy should be provided.

9. **Sources and Uses Analysis:**
   A) Identify all sources (both private and public) of funds with dollar amounts and timing of availability of each source:
      i. Firm commitment letters with all terms and conditions for all mortgages, grants, bridge (interim) loans and investment tax credits (historical, low-income, if applicable);
      ii. If the applicant is a partnership or limited liability corporation, a copy of the partnership agreement or operating agreement, which will indicate the cash contributions by the partner(s) or member(s); and
      iii. If equity is committed by the developer or owner(s), evidence of available equity funds.

   B) Identify all uses of funds associated with the project:
      i. Acquisition documentation, such as purchase agreement, option and appraisal or other documentation of value;
      ii. Agreements governing the various reserves which are capitalized at closing (to verify that the reserves cannot be withdrawn later as fees or distributions);
      iii. A third-party appraisal to substantiate the value of the property

10. **Subsidy Layering Review:** Staff will conduct an analysis of investment funding needed to make a project feasible. Also known as a 'gap analysis'.

11. **Property Management Experience and Performance**: The management company must have experience managing properties that are reasonably comparable to the subject property. Comparable properties include:
      i. Similar number of units and type of buildings
      ii. Similar financially (revenues, expenses, size of mortgage)
      iii. Similar operationally (tenant population, type of subsidy)

If the owner plans to self manage, and does not have experience managing a comparable property or portfolio, they must provide a written explanation of alternative experiences that will prepare them to own and manage the property, and provide high quality housing.

Eligible expenses

Property acquisition expenses are limited to:

- Acquisition of real property, including acquisition costs only and excluding any repairs or renovations
- Establishment of a Replacement Reserve for the property as determined appropriate by the City, or the first mortgage lender
- Payment of relocation assistance to a current renter by a prospective owner occupant.

Affordability requirements

From the date of closing on the loan through (i) the date on which the loan is repaid or (ii) the date that is the 10^{th} anniversary of the closing date, whichever is later, the following affordability requirements apply:

- 75% or more units must serve households at 80% AMI or less with rents affordable to households at 80% AMI or less, including 20% of such units affordable to and occupied by households at or below 60% AMI, as evidenced by the rent roll. There is a preference for longer affordability and a higher percentage of units restricted at 60% of AMI or lower.
- Owners must accept Section 8 Housing Choice Vouchers and complete an Affirmative Fair Housing Marketing Plan (AFHMP).

Renter protection requirements

- As affordable units turn over, the property owner is responsible for verifying the incomes of new renters in affordable units at the time of move-in. The property owner does not need to verify incomes of existing residents, as they are exempt from verifying their incomes.

- Up to 25% of units may have no rent or income restrictions, although the Renter Protection requirements still apply to prevent displacement of existing renters
- All existing and new renters must be notified of the program's affordability and renter protections requirements
- Except for an owner-occupant borrower household that will occupy an existing rental unit, lease-compliant residents will not be involuntarily displaced (no lease terminations without cause)
- Rent increases for all renters, including those renters in units without rent or income restrictions, will be limited based on the goal of non-displacement of low-income households to a maximum of 5% per year unless the borrower can demonstrate that revenue from larger rent increases is necessary to address critical operations and maintenance issues at the property.
- Rents may be increased and adjusted upwards as necessary to proforma levels as units turn over from initial households, as long as affordability guidelines are met for designated affordable units.
- The City will review screening criteria to ensure there are no onerous requirements in conflict with the Fund's affordability and affirmative marketing goals.
- Acquisitions will be exempt from Minneapolis Relocation Policy, subject to Borrower providing notice to all existing renters of the foregoing Affordability and Renter Protection Requirements.
- Owner occupant borrowers who plan to occupy an existing rental unit in an acquired NOAH property may terminate the lease for the owner occupied unit without cause if the current renters are paid relocation assistance in an amount equal to three (3) months of the current monthly contract rent.
- Must have an affirmative marketing strategy approved by the City.

Borrower contributions and fees

Minimum 3% contribution by the borrower or member of the borrower entity. Total borrower contribution to the project must equal 3% of the total development cost for the project, including 1) equity cash contribution and 2) an additional personal guaranty of the City's Note and Mortgage such that the combination of the guaranty amount and the cash contribution equals at least 3% of total development cost. Fees paid to Borrower for the of the properties will not exceed 2% of the acquisitioncost.

Borrower application process

Applications will be accepted on a rolling basis subject to availability of funds.

All prospective borrowers will be required to submit the following information to City staff in order to be considered for NOAH financing.

1. **Real estate proforma:** a real estate proforma that clearly outlines sources, uses, and a 10-20 year cash flow analysis.

2. **Financial capacity:** borrowers will be required to provide audited financial statements and/or adequately demonstrate financial capacity to own and maintain the property.

3. **Narrative statement:** All borrowers including non-profits, for-profit entities and individuals seeking loans must demonstrate relevant experience and community involvement through a written narrative demonstrating relevant real estate experience, community involvement and/or local ties within the ward or neighborhood where the property is located, and experience in real estate ownership, operations or development serving BIPOC (Black, Indigenous and People of Color) renters.

   If applicable, the following items should be mentioned within the narrative when applying for City NOAH funds:

   a. Completion or current participation in one of the following programs for emerging BIPOC developers: City of Minneapolis Developer's Technical Assistance Program (DTAP), Twin Cities Local Initiatives Support Corporation (LISC) Developers of Color Capacity Building program, Urban Land Institute (ULI) Real Estate Diversity Initiative (ReDI) program, GMFH Developer of Color and Small Landlord Capacity Building Program, or another similar capacity building program subject to review and approval by the CPED Director.

b. Past experience with, or plans to use financing on the current project, from one of the following community based affordable housing and economic development lenders: Northside Economic Opportunity Network (NeON) or Metropolitan Economic Development Association (Meda), Greater Minnesota Housing Fund (GMHF), Twin Cities Local Initiatives Support Corporation (LISC); or any other mission based lender or Community Development Financial Institution (CDFI)