Spotlight on Underserved Markets

Affordable Housing in High Opportunity Areas Defined in State LIHTC QAPs

Freddie Mac MULTIFAMILY

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Three Cases Studies of State-Identified High Opportunity Areas and Replicable Financing Solutions for Affordable Housing Development and Preservation

The American Dream is deeply rooted in the idea that anyone has the opportunity to prosper and succeed through hard work. Yet this dream is not universally and equally accessible. An individual's ability to achieve their desired success is often determined by the environmental and social experiences of their youth, and economic opportunity is not uniformly distributed across the country, nor even across individual markets. Some areas of the country offer greater access to opportunity than others. Often these same areas are more difficult to access for those making lower incomes, in part due to high housing costs and a shortage of affordable housing, which is difficult to develop without deliberate public support.

We estimate that approximately 17 million people live in these areas, and nearly 800,000 earn at or below 60% of the area median income (AMI). Since these areas are highly sought after, their population and housing demand increases faster than supply can keep up. As a result, rents increase, the supply of affordable housing shrinks and access to areas of opportunity is further limited. This results in a need for deliberate focus on creating and preserving affordable housing in areas of high opportunity.

To address the difference in access to opportunity across income levels, states have begun incentivizing the development of affordable housing in areas they define as high opportunity. The primary incentive has been through the allocation of 9% Low-Income Housing Tax Credits (LIHTCs). States prioritize projects in high opportunity areas in their Qualified Allocation Plan (QAP) when they award tax credits. Each state has a limited resource of credits, making the process for receiving 9% LIHTCs highly competitive. As such, states must prioritize and assess projects based on criteria documented in the QAP. Therefore, the QAPs give a strong indication of states' criteria for certain policy priorities and in recent years, affordable housing in high opportunity areas has been an important priority. In 2018, Freddie Mac and the National Housing Trust co-authored a paper on the different definitions and methods that states use to promote opportunity within their QAPs.[1] We found five primary indicators of opportunity: access to education, economic growth/jobs, income levels, access to health care and access to transportation. Addressing these factors can foster greater economic mobility and achieve positive life outcomes, regardless of their socioeconomic background.

In this paper, we take a deeper look into three specific high opportunity areas described in state LIHTC QAPs identified by the Federal Housing Finance Agency (FHFA) as meeting the agency's criterion for promoting housing in areas of opportunity,[2] and we examine some of the factors that help these areas contribute to economic mobility. In so doing, we also analyze three multifamily properties that received Freddie Mac debt financing in these areas to better understand different methods and programs — beyond 9% LIHTC, which is not the only method — used to create and preserve affordable housing. These markets and properties are:

- San Francisco: 2698 California Street Apartments
- Owing Mills, Maryland: Red Run Station
- Champlin, Minnesota: Legends of Champlin

[1] https://mf.freddiemac.com/docs/Opportunity_Incentives_in_LIHTC_Qualified_Allocation_Plans.pdf
[2] https://www.fhfa.gov/DataTools/Downloads/Documents/Enterprise-PUDB/DTS_Residential-Economic-Diversity-Areas/RED_HIGHOPP_Areas_READ%20ME_2017.pdf

In our analysis of these areas and properties, we demonstrate that:

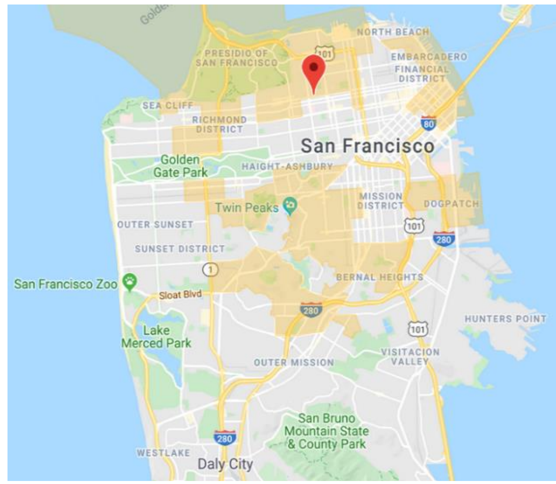
1. States may have different definitions of a high opportunity area, but the areas identified generally have features of the five indicators of opportunity, though emphasis on each varies.
2. Both LIHTC and state and/or local support play a vital role in the development or rehabilitation of affordable housing in high opportunity areas.

Creating and preserving affordable housing in high opportunity areas helps to give greater access to opportunity for residents and allows people of different income levels to work or retire in the communities where they have their roots. Each of these case studies showcases the different indicators of opportunity, and each property deploys a replicable financing model that leverages both major federal subsidy and local programs. While the details of the local programs may differ, the concepts described can readily be leveraged for other transactions in other localities, and other localities may learn from the successes highlighted to further affordable housing in their areas of high opportunity.

Case Study #1 — San Francisco: 2698 California Street Apartments

San Francisco is one of the nation's most expensive housing markets, and despite generally higher incomes, rents are among the highest in the nation. The area also contains several high opportunity census tracts identified in the state's LIHTC QAP. This combination of high-cost burden and high opportunity underscores the importance of creating and preserving affordable housing. Doing so makes it possible for people of all income levels to live and work in their community, and for lower-income families to afford living in high opportunity areas.

Through California's 2019 QAP, the California Tax Credit Allocation Committee (TCAC) encourages development of affordable housing in high opportunity areas. To identify such areas, the Department of Housing and Community Development (HCD) and the TCAC convened a group of independent organizations and research centers that created a mapping tool to identify areas that support childhood development and economic mobility. The goal is to "offer low-income children and adults the best chance at economic advancement, high educational attainment, and good physical and mental health."[3] It integrates key indicators for opportunity including education, economy, housing, mobility and the environment, and civic life.[4]



Source: Freddie Mac DTS Mapping Tool. Orange represents high opportunity areas based on QAPs.

In this case study, we examine 2698 California Street Apartments – a public housing, age-restricted property in a California QAP-designated high opportunity area – located in the Pacific Heights neighborhood of San Francisco. This property underwent a Rental Assistance Demonstration (RAD) conversion leveraging 4% LIHTC, local subsidy, and debt from Bank of America and Freddie Mac. Here we explore the features that contribute to the neighborhood being a high opportunity area and the financing tools that are needed to preserve affordable housing in a high cost, high opportunity area.

Market Overview and Assessment of Opportunity

San Francisco has benefited from significant economic growth over the past decade – a factor that can be important for economic mobility for its residents. At the same time, housing supply has not kept pace with that job growth, causing greater cost burden on residents and making areas of opportunity less accessible for lower-income residents.

In a recent report, the city's Budget and Legislative Analyst's Office found that the population grew at higher rates than housing production between 2010 and 2018, with population increasing by 10.4% and housing increasing only 6.5%. At the same time, job growth far outpaced housing production, with 8.5 new jobs for each new housing unit produced. This job growth was concentrated in high-wage and low-wage industries, though housing production was concentrated in higher-priced market rate housing. Job growth is projected to continue apace through 2026, resulting in a projected deficit of 15,629 units for low-

[3] https://www.treasurer.ca.gov/ctcac/opportunity/final-opportunity-mapping-methodology.pdf
[4] https://www.treasurer.ca.gov/ctcac/opportunity.asp.

income households.[5] As supply continues to dwindle, combating the affordability crisis becomes even more challenging.

Meanwhile, rent in San Francisco is one of the highest in the country. Rents in the broader San Francisco-Redwood market have grown by nearly 35% from 2013 to 2018, compared with 25.5% in the nation, shown in Exhibit 1. At the same time, vacancy rates are well below the national average, at 3.7% compared with 4.6%. This is a factor of the high demand for living in the Bay Area and the relatively limited supply. The property in this case study is in the downtown San Francisco submarket, and while rents have not grown as fast as the surrounding metro area or nation, rent levels are even higher and vacancy rates slightly lower than the broader metro area. According to RealPage, the asking rent for downtown San Francisco is $3,394 as of 2018 – roughly 2.5 times greater than the national average.

We suspect this slower rent growth in the downtown submarket is driven by rent control limits within the San Francisco district; while rents in the downtown area are often constrained, the surrounding areas continue to grow rapidly. Furthermore, development downtown is constrained geographically, with very little available land. Still, even though rents within downtown have increased less than surrounding areas, they are still significantly more than the national average.

Exhibit 1: Multifamily Rental Market Overview

	Submarket (Downtown San Francisco)	Market (San Francisco – Redwood City – South SF)	National
2013 Rent	$2,874	$2,439	$1,063
2018 Rent	$3,394	$3,288	$1,334
5-Year Rent Growth	18.1%	34.8%	25.5%
2013 Vacancy Rate	3.9%	4.1%	5.4%
2018 Vacancy Rate	3.5%	3.7%	4.6%
5-Year Vacancy Difference	-0.4%	-0.4%	-0.8%

Source: RealPage

As seen in Exhibit 2, the census tract in which 2698 California Street Apartments is located has a much lower poverty rate than both the state and national averages. We see the percentage of cost-burdened renters at the tract level is well below the county, state and nation. This is partially due to the high presence of higher-wage jobs in the area. However, while the area supports many higher-income residents, those professionals who are not making tech-sector wages are living in an area with some of the highest housing costs in the nation. These higher housing costs can be especially burdensome on the older population who are on fixed incomes, which furthers the need for affordable housing for seniors in this area.

Exhibit 2: Market Characteristics

	Tract	County	State	Nation
Population Density	29,477.6	18,430.0	250.2	90.9
Poverty Rate	3.9%	11.7%	15.1%	14.6%
Renter Rate	61.2%	62.7%	45.5%	36.2%
Cost-Burdened Renter %	28.5%	40.5%	56.0%	50.6%

Source: Freddie Mac Tabulations of 2017 5-Year American Community Survey

[5] https://sfbos.org/sites/default/files/BLA.Jobs%20Housing.101619.pdf

Generally these summary statistics – higher rents, lower poverty – can suggest that a submarket might be a high opportunity area. However, to better assess the market, we examine the community in terms of the five opportunity indicators generally present across state LIHTC QAPs that incentivize affordable housing in high opportunity areas: 1) access to education, 2) economic growth/jobs, 3) income levels, 4) access to health care and 5) access to transportation. We use a variety of sources to explore each of these indicators, but the most prevalent is Opportunity360 and Great Schools. Opportunity360, created by Enterprise Community Partners, is a tool that measures opportunity in census tracts across the country.[6] Great Schools is an independent nonprofit organization that uses a variety of indicators to provide a rating of school quality and comparison with other schools within the same state.[7]

Based on our analysis, we rate each of the five opportunity indicators as either above average (check-plus), average (check), or below average (blank) when compared with the broader region and nation. Exhibit 3 below shows the ratings for 2698 California Street Apartments across all five indicators. We rate access to education, economic growth/jobs, income levels and access to transportation as above average, and access to health care as average. Each indicator is discussed in greater detail below. Taken together, based on location and alignment with these five indicators, this property supports economic diversity and opportunity to lower-income residents in an area of high opportunity.

Exhibit 3: Rating of the Five Indicators of High Opportunity

	Access to Education	Economic Growth/Jobs	Income Levels	Access to Health Care	Access to Transportation
Pacific Heights, San Francisco	✓+	✓+	✓+	✓	✓+

Access to Education – Above Average

The San Francisco Unified School District (SFUSD) differs from many school districts across the country. Typically, a student's home address directly determines the district, and the schools within the district, which they will be attending. However, SFUSD seeks to promote diversity and limit racial isolation by providing each student with an opportunity to succeed regardless of location. As a result, the district places students in schools through a lottery assignment process.[8] SFUSD aims to place students in their highest ranked requests, but due to the volume of requests and limited seats, assignments are often determined through "tiebreakers".

Though tiebreakers vary between elementary, middle and high schools, there are generally three criteria for a tiebreak:[9]

1. Siblings – a younger sibling of a student who is enrolled and will be attending the school
2. Attendance Area – students who live within the attendance area of the requested school
3. Census Tract Integration Preference (CTIP) – students who live in areas of the city with the lowest average test scores

Since this property falls within the SFUSD, it can be considered to align with the general goal of providing access to quality education, even if in all cases students do not get placed in the school of their choice, as the school district has made an explicit effort to promote opportunity for students across the city of San

[6] https://www.enterprisecommunity.org/opportunity360
[7] https://www.greatschools.org/gk/ratings/
[8] http://www.sfusd.edu/en/enroll-in-sfusd-schools/how-student-assignment-works/the-assignment-process.html
[9] http://www.sfusd.edu/en/enroll-in-sfusd-schools/how-student-assignment-works/the-assignment-process.html

Francisco. While 2698 California Street Apartments is an age-restricted property, implying few kids live there and access the SFUSD, the above-average access to education in the area provides an overall benefit to the community and makes it a more desirable place to live.

Economic Growth/Jobs – Above Average

The San Francisco metro area has grown at an extremely high rate alongside the technology boom. Median household income in San Francisco grew by 35.5% from 2013 to 2018 – almost double the national rate. This has been partially fueled by the rise in total employment, which has greatly outperformed the national average in recent years, as seen in Exhibit 4. The local economy has expanded by 42.5% in the last five years. Population growth has been strong as well, although this is a fairly recent phenomenon; San Francisco only started growing more quickly than the national average in 2007.

Exhibit 4: Economic and Labor Market Growth

	5-Year Growth (2013-2018)		10-Year Growth (2008-2018)		20-Year Growth (1998-2018)	
	San Francisco	Nation	San Francisco	Nation	San Francisco	Nation
Median Household Income	35.5%	18.5%	44.3%	19.0%	96.8%	54.3%
Population Growth	4.6%	3.5%	11.4%	7.6%	16.9%	18.6%
Gross Metro Product	42.5%	22.6%	65.6%	39.9%	172.5%	127.1%
Employment	16.2%	9.3%	18.1%	8.6%	21.7%	18.2%

Sources: Freddie Mac Tabulations of Bureau of Labor Statistics, CPI Household Survey, U.S. Census Bureau, U.S. Bureau of Economic Analysis and Moody's Analytics. Gross Metro Product growth is nominal.

San Francisco is well known for its status as a tech hub and for being among the nation's most robust economies. Although the out-migration has been an issue recently due to the region's high cost of living, international in-migration helps keep population growth strong. Looking forward, Moody's Analytics ranks San Francisco as 6 out of 403 state and metro areas in terms of economic vitality, which measures an area's long-term economic potential.

The unemployment rate in San Francisco has historically been very low and showcases the strength of the local economy. Per the Bureau of Labor Statistics (BLS), the metro area's unemployment rate was 2.7% in 2018 – considerably lower than the national rate of 3.9%. San Francisco has been below 4% unemployment since September of 2016. For context, the nation fell below 4% unemployment in March of 2019. The metro's labor force participation rate has risen steadily in the past five years and reached 66.8% in 2018, which is substantially higher than the national rate of 62.9%. San Francisco has always had a higher labor force participation rate than the nation, and since 2007, the gap has only widened.

San Francisco benefits from a highly educated workforce, strong population growth, explosive household income growth and 18 Fortune 500 companies headquartered in the market. Some of the largest employers in the area include Salesforce, Wells Fargo, Uber and the University of California, San Francisco. Based on the strong economic growth, the local economy in San Francisco has been performing above the national average, providing economic opportunity to its residents.

The San Francisco economy heavily relies on the following industries:

- Professional and business services
- Information

Meanwhile, the economy relies less on these industries:

- Government
- Manufacturing
- Trade, transportation and utilities

In the past five years, employment growth in the information sector grew by 49.3%, which was by far the fastest rate among all sectors in San Francisco. For comparison, this sector grew by only 3.5% at the national level.

Income Levels – Above Average

The Bay Area boasts some of the highest incomes in the country. With a tract median income at $152,417, it is nearly three times that of the national median income of $57,652, seen in Exhibit 5. However, recent growth has formed a divide as the tech and business industries have dominated the market and other industries have fallen behind. This growth has increased wealth and income gaps and has contributed to the housing affordability concerns in this area.

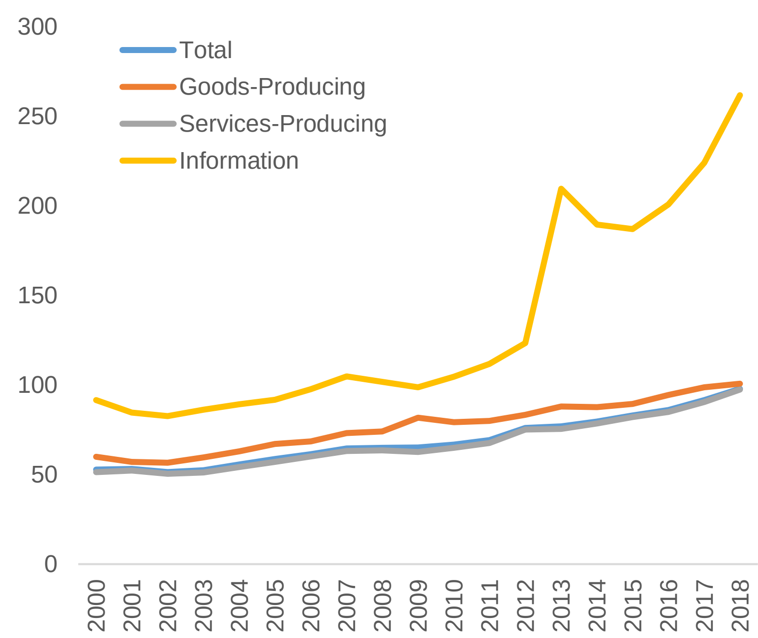
Exhibit 5: Median Household Income

	Tract	County	State	Nation
Median Income	$152,417	$96,265	$67,169	$57,652
Median Income - Owner	$225,139	$128,916	$90,735	$73,252
Median Income - Renter	$138,304	$76,386	$46,062	$36,653

Source: Freddie Mac Tabulations of 2017 5-Year American Community Survey

Per data from BLS, the average annual wage in San Francisco has increased by 50% from 2008 to 2018. However, much of this growth is concentrated in a few sectors, most predominately the information sector. Though it only makes up 5% of the workforce, the average annual wage for an employee in the information sector has increased from $101,750 to $261,621 from 2008 to 2018, a growth rate of more than 157%. The tech boom is likely the primary driver of this growth and suggests an expanding gap between lower- and higher-income earners. Exhibit 6 shows how the strong growth in the information sector has more than tripled the total income growth rate along with aggregate income growth in goods-producing and other service-producing industries.

Exhibit 6: Average Income Across Industries in San Francisco



Source: Freddie Mac Tabulations of U.S. Bureau of Labor Statistics and Moody's Analytics

This wage growth, combined with limited housing supply in San Francisco, leads to higher costs of housing and transportation, as residents are priced out of their homes, move further away to afford housing, and as a result have higher commuting expenses. Transportation costs for San Francisco residents are reviewed in greater detail below. Despite the disparity of the income levels, the area boasts some of the highest median incomes, which helps support economic growth and mobility among its residents.

Access to Health Care – Average

California evaluates health opportunity differently when examining people versus places.

- For people, the indicators are: year of life lost, births to teens and infant health.
- For place, the indicators are: air quality, health care availability, access to supermarkets, and parental care.

As seen in Exhibits 7 and 8 below, the census tract in which the property is located scores favorably in all categories other than infant health.[10]

Exhibit 7: Health/Environment Opportunity: People

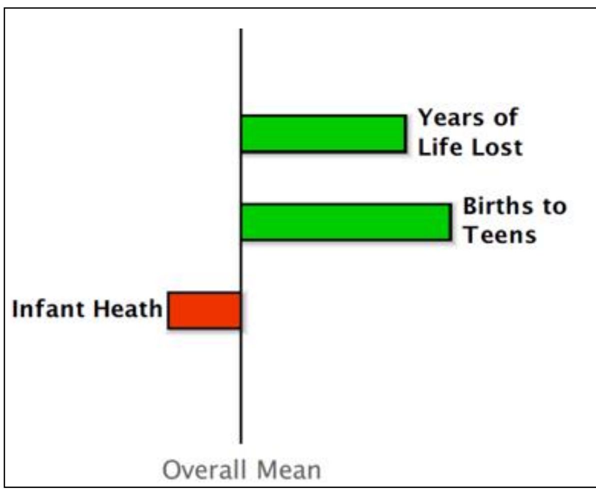
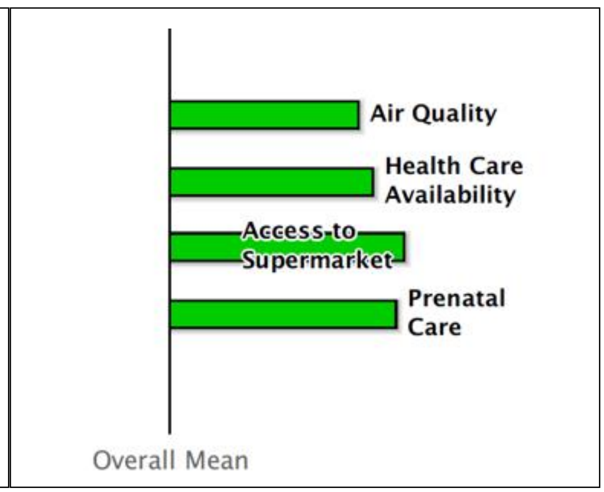


Exhibit 8: Health/Environment Opportunity: Place



Sources: U.C. Davis Center for Regional Change, California Department of Public Health, U.S. Census, USDA, NETS, CA EPA

Data from Opportunity360 suggests a similar ranking for health and well-being; the property's location scored an 81 in their index, which includes seven measures for health of residents and ability to access care. Among those measures is a lower diabetes rate at 9% compared with the national average of 10%. This location also boasts a similar percentage of adults with a health care provider compared with the national average – at 74% versus 75%, respectively – and 16% of adults reported with fair or poor health compared with the national average of 18%. Based on these measures, the access to health care in this area is on par with the national average.

[10] https://interact.regionalchange.ucdavis.edu/roi/webmap/webmap.html

Access to Transportation – Above Average

To assess the property's access to transportation, we rely on external data from Walk Score[11] and Opportunity360. Per Walk Score, the location is considered a "walker's paradise" with a walk score of 99, a transit score of 81 and a bike score of 81. Per analysis from Opportunity360, San Francisco residents are much more likely to walk to work, much less likely to drive to work, and much more likely to use public transportation for commuting than the average person in the United States. However, residents also spend nearly 9% more on housing and commuting costs than the average American.

Exhibit 9: Access to Transportation

	Tract	San Francisco MSA	Nation
% Who Drive to Work	41.3%	68.5%	85.6%
% Who Walk to Work	12.5%	4.7%	2.7%
% Who Take Public Transportation	25.1%	16.8%	5.1%
% of Income Spent on Housing and Transportation	50.5%	-	41.0%
% Who Commute Over an Hour	12.7%	16.2%	8.9%
% of Households with no Vehicles Available	12.0%	12.2%	8.8%

Sources: Census ACS, HUD Location Affordability Index, Opportunity360

Property Information

Source: Freddie Mac Loan Submission Template provided by the Optigo® lender

While the QAP incentivizes new development through 9% LIHTC, new properties are not the only way to provide affordable housing, particularly for the most vulnerable populations. The public housing stock across the nation is aging and in need of recapitalization and repair. This is true in San Francisco as well, even in a high opportunity area such as Pacific Heights. This recapitalization is often done outside of

[11] https://www.walkscore.com/score/2698-california-st-san-francisco-ca-94115

LIHTC QAPs through the Department of Housing and Urban Development's (HUD) RAD program with 4% LIHTC. There are an increasing number of successful rehabilitation projects being completed through the RAD program, which aims to preserve public housing by enabling access to private financing, allowing for the rehabilitation of properties. San Francisco's efforts to convert its public housing portfolio to RAD is the largest to date.

Built in 1971, 2698 California Street Apartments was formerly public housing controlled by The Housing Authority of the City and County of San Francisco (SFHA). Mercy Housing California acquired the property in 2016, rehabilitated it and now currently manages it under the requirements of the RAD program. The property is restricted to seniors ages 62 and older.

Exhibit 10: Property Characteristics

Unit Type	*Units*	*Average Sq. Ft.*
Efficiency/Studio	31	399
1 Bedroom	8	509
2 Bedroom	1	681
Total Residential	**40**	**428**

Geography	**State**	California
	MSA	San Francisco-San Mateo-Redwood City
	County	San Francisco County
Property Details	**Style**	Mid-Rise
	Year Built	1971
	Number of Units	40
Ownership and Management	**Owner**	Mercy Housing
	Manager	Mercy Housing

Source: Freddie Mac Investment Brief

SFHA continues to own the land, per an unsubordinated 99-year Ground Lease Agreement. The property consists of 40 apartment units located in one five-story building, with 31 studio units, eight one-bedroom units, and one two-bedroom unit. The property is located on a 0.19-acre parcel of land with six total parking spaces in downtown San Francisco.

The property is encumbered by a Bond Land Use Restriction Agreement (Bond LURA) from the city and county of San Francisco, a RAD Use Agreement, a LIHTC LURA and a Declaration of Restrictions in connection with a subordinate loan. The Bond LURA restricts incomes for 40% of the units to households earning at or below 60% of AMI; the RAD Use Agreement restricts units to be used solely as rental housing for tenants meeting the eligibility and income-targeting requirements under each Housing Assistance Payment (HAP) contract; and the LIHTC LURA, which will be recorded at conversion, will restrict incomes and rents based upon California's Tax Credit Allocation Committee's jurisdiction. Per Freddie Mac's affordability analysis, 39 of the 40 units (97.50%) are affordable at 50% of AMI.

Furthermore, all units except one manager unit receive subsidies through either HUD's Project-based Voucher (PBV) or its RAD program. For the 17 PBV units, the contract rents are set at the SFHA Payment Standard for Section 8 housing choice vouchers, and for the remaining 22 RAD units, the rents are determined by HUD.

Financing Details

2698 California was financed for renovation through Bank of America using Freddie Mac's 4% forward Tax-Exempt Loan (TEL) offering. Bank of America was both the lender and LIHTC equity investor. The property benefits from multiple subsidies, abatements and subordinate debt options. The combination of these allows for affordable housing to exist in such a high-cost market. Below, we summarize the property's financing, which highlights the importance of federal, state, or local housing subsidies in such instances.

Equity (45.7%)

The financing is made up of nearly an even split of debt and equity, with LIHTC equity making up the largest portion of equity and the largest single source of funding. Other than the tax credit equity, the sponsor contributed a 5.2% stake that makes up the remaining portion of equity.

Debt (54.3%)

The remaining 54.3% consists of debt financing, including various public sources. Included in the financing stack is a $3.078 million senior loan funded by Freddie Mac, with a loan-to-value (LTV) ratio of 65%.

Public Contributions

The most significant public contribution to this property occurred through the RAD program. Under this, the Housing Authority of the City and County of San Francisco converted the federal funding that supported the property to Section 8 PBVs under RAD and transferred ownership away from the housing authority to private ownership. The housing authority still retains ownership of the land and provided a 99-year ground lease to the new owner commencing October 12, 2016, and expiring October 12, 2115. Under the ground lease, the property owner as lessee agrees to use the site only for affordable rental housing with occupancy restricted for new tenants to households earning no more than 50% of AMI at initial occupancy.

The ground lease offers some flexibility if the PBVs or RAD program project-based rental assistance are terminated. In such a circumstance, rents may be increased to the minimum level necessary to support financial feasibility, subject to approval by both the housing authority and the San Francisco mayor's office of housing, not to exceed 60% of AMI. Further, in 2070, the property owner may raise rents for tenants in-place (as well as lease vacant units at) to levels affordable to those making no more than 80% of AMI. The $860,000 capitalized rent due under the ground lease, together with the purchase price for the improvements on the property, were paid with a loan from the housing authority to the borrower in the amount of $11,180,000. The term of the loan is 55 years and requires annual hard payments of $15,000, plus an amount equal to a pro rata share of not more than 67% of residual receipts, commencing in the calendar year immediately following the issuance of the certificate of occupancy.

Ultimately, the value of the property is significantly lower than the costs of rehabilitation. The loan to cost is approximately 14.6%, which illustrates the importance of LIHTC equity and public contributions in this development. Without material subsidy for construction and preservation of affordable rents, this development would not be feasible.

Summary

While San Francisco is notable for its affordability challenges, the tract in which this property is located appears to support many factors that can lead to economic mobility for lower-income residents. Based on our analysis, the neighborhood around 2689 California Street Apartments meets all five of our high opportunity areas, including access to education, economic growth, income levels, access to health care and access to transportation. Further, the financing method – leveraging both the RAD program and 4% LIHTC – is replicable and has been replicated elsewhere around the country. Indeed, this individual transaction is part of the RAD conversion of the entire San Francisco public housing portfolio that sets precedent for other cities to follow in their large-scale RAD conversions.

Case Study #2 – Red Run Station

Public support for affordable housing is not just necessary for people of lower incomes. It also enables a community to provide for its most vulnerable populations, such as those with disabilities, who can benefit substantially from living in a high opportunity area. Red Run Station in Owings Mills, Maryland, northwest of Baltimore, is a new development that provides affordable housing for both low-income and disabled residents in a high opportunity area.

Source: Freddie Mac DTS Mapping Tool. Orange represents high opportunity areas based on QAPs.

Per the Maryland Department of Housing and Community Development (DHCD), a location qualifies as high opportunity if it meets the boundaries outlined in their "Composite Opportunity Index."[12] The Composite Opportunity Index uses publicly available data and is based on three major factors: community health, economic opportunity and educational opportunity.[13] All communities that have a higher index score than the statewide average are considered areas of opportunity. An area can also be high opportunity if it was so designated by law or court order, as in the case of Baltimore City and certain areas of Baltimore County. Based on Maryland's DHCD, Red Run Station is in a census tract that is designated as a community of opportunity.

In this case study, we examine the neighborhood around Red Run Station to understand the features that contribute to it being a high opportunity area. We examine how the property provides needed affordable housing to the community and how its financing was achieved to support the lower rents. From this, we can better understand what financing tools are needed to develop a low-income property that supports disabled residents in a high opportunity area.

Market Overview and Assessment of Opportunity

Red Run Station is located within the Owings Mill/Pikesville submarket of the Baltimore metropolitan area, roughly 21 miles northwest of the Inner Harbor. The area surrounding Red Run Station is indicative of an area with great economic and social opportunity due to higher income levels, access to job opportunities and health care. However, the area has a higher percentage of poverty and cost-burdened renters, which furthers the need for affordable housing in this area.

According to RealPage, as of 2018, rent growth has trailed the national rent growth rate over the past five years, but the magnitude of the decline in vacancy rates during that time has outpaced the greater metro area and nation. Vacancy rates have tightened by 90 basis points (bps) due to very limited new supply.

[12] https://dhcd.maryland.gov/HousingDevelopment/Documents/lihtc/NEW-Final2019MDMFRentalFinancingProgramGuideSignedbyGovernor2-13-2019.pdf
[13] https://data.imap.maryland.gov/datasets/905e267f057149ef9f28413cf5a6b658_2

RealPage estimates only 0.4% annual net inventory growth in Owings Mill submarket, compared with 1.4% and 1.6% in the Baltimore metro area and nation, respectively.

Exhibit 11: Multifamily Rental Market Overview

	Submarket (Owings Mills/Pikesville/Randallstown)	Market (Baltimore – Columbia – Towson MD)	National
2013 Rent	$1,150	$1,168	$1,063
2018 Rent	$1,276	$1,296	$1,334
5-Year Rent Growth	11.0%	10.9%	25.5%
2013 Vacancy Rate	6.4%	5.1%	5.4%
2018 Vacancy Rate	5.5%	5.4%	4.6%
5-Year Vacancy Difference	-0.9%	0.3%	-0.8%

Source: RealPage

The subdued rent growth over the past several years has not translated into fewer cost-burdened renters compared with the national average. The census tract has a much higher percentage of cost-burdened renters at 60.8% compared with the county, state and nation at around 50%. Furthermore, the poverty rate is higher in the census tract than the county and state. These findings suggest a need for affordable housing in this area in order to support economic diversity and higher opportunities.

Exhibit 12: Market Characteristics

	Tract	County	State	Nation
Population Density	1,162.0	1,384.8	617.5	90.9
Poverty Rate	11.1%	9.1%	9.7%	14.6%
Renter Rate	29.8%	34.2%	33.2%	36.2%
Cost-Burdened Renter %	60.8%	49.6%	50.4%	50.6%

Source: Freddie Mac Tabulations of 2017 5-Year American Community Survey

To better assess the area and how it qualifies as a high opportunity area, we examine the community in terms of the five opportunity indicators. Similar to the rating system in the first case study, Exhibit 13 shows that Red Run Station is located in an area that has average or above-average ratings in 4 out of 5 of these indicators access to education, economic growth and jobs, income levels and access to health care. The area does not have strong access to transportation due to its suburban location and limited public transportation in Baltimore. Taken together, based on location and alignment with these five indicators, this property supports lower-income and disabled residents in an area of high opportunity.

Exhibit 13: Rating of the Five Indicators of High Opportunity

	Access to Education	Economic Growth/Jobs	Income Levels	Access to Health Care	Access to Transportation
Owings Mill, Baltimore	✓	✓	✓+	✓+	

Access to Education – Average

Based on the property address, we utilize publicly available data from Great Schools and Opportunity360 to measure the quality of education in the surrounding neighborhood. The overall Great Schools' score is a rating out of 10. Using this database, we located 15 schools within a 3-mile radius of the property address. The average score was just 4.6. The elementary, middle and high schools that are assigned to the property each received a 5 out of 10 on Great Schools, which is more than the average in the area but still not exemplary.

Though the local public schools did not score favorably in Great Schools ratings, the Opportunity360 report shows a positive outlook for educational attainment in the census tract. Per the report, the tract received an 87 on the opportunity index for education. The tract also has favorable statistics for adults who hold a high school degree or higher and adults who hold a bachelor's degree or higher. Per the Maryland DHCD, educational opportunity includes the percentage of the population with a college degree and with no high school diploma. The tract reports that 96% have a high school diploma and 54% have a bachelor's degree, much higher than the regional average of 90% and 39%, respectively.

Based on the average Great Schools ranking, and the higher percentage of population with a high school and college degree, we believe Red Run Station is in an area with average access to education.

Economic Growth/Jobs – Average

The Baltimore metro area boasts a well-diversified economy with strength in the health care industry due to their world-renowned hospitals, their port's logistical location along Interstate 95, and a growing hub for cybersecurity. Economic growth has lagged the nation in the past five years but longer-term growth rates (10 and 20 years) are more promising, indicating a market that generally outperformed the nation. Although population growth has been persistently low, economic growth has generally stayed in line, or exceeded, the national average. Despite lower job growth in the past few years, growth over the past two decades has been relatively consistent in Baltimore compared with the nation, at 19% and 18.2%, respectively, seen in Exhibit 14.

Exhibit 14: Economic and Labor Market Growth

	5-Year Growth (2013-2018)		10-Year Growth (2008-2018)		20-Year Growth (1998-2018)	
	Baltimore	Nation	Baltimore	Nation	Baltimore	Nation
Median Household Income	17.6%	18.5%	23.7%	19.0%	69.2%	54.3%
Population Growth	1.2%	3.5%	4.6%	7.6%	11.0%	18.6%
Gross Metro Product	22.4%	22.6%	44.7%	39.9%	140.1%	127.1%
Employment	6.2%	9.3%	7.9%	8.6%	19.0%	18.2%

Sources: Freddie Mac Tabulations of Bureau of Labor Statistics, CPI Household Survey, U.S. Census Bureau, U.S. Bureau of Economic Analysis and Moody's Analytics. Gross Metro Product growth is nominal.

Unemployment rates are currently slightly higher in Baltimore, at 4.0% compared with the national rate of 3.9% in 2018. However, unemployment rates in Baltimore were consistently below the national average through most of the 2000s. The metro's labor force participation rate is very high and shows very little variation over time. In 2018, Baltimore's rate was 67.7%, which is substantially higher than national rate of 62.9%. From 2000 to 2018, the difference between the nation's highest and lowest labor force participation rate was 4.4%; in Baltimore, it was only 1.6%.

Baltimore benefits from a highly educated workforce, an economy anchored by stable industries, and the presence of numerous prestigious universities and hospitals. Some of the largest employers in the area include Johns Hopkins University, University of Maryland, Exelon and Northrop Grumman.

The Baltimore economy heavily relies on the following industries:

- Education and health services
- Professional and business services
- Government

Meanwhile, the economy relies less on these industries:

- Leisure and hospitality
- Trade, transportation and utilities
- Manufacturing

As seen in Exhibit 14 above, Baltimore has experienced lackluster employment growth in the past five years. The government sector, one known for stability, even experienced a mild decline of -0.7% during this time. However, some employment sectors, such as education and health services, experienced healthy growth. The education and health services sector grew by 13.2%, which was the fastest growth of any sector, kept pace with the national average. Information was the only sector in which Baltimore's growth exceeded the national average, 5.7% to 3.5%, respectively.

The Maryland DHCD uses the unemployment rate as a measure of economic opportunity in the community. The low unemployment rate but below national employment growth rate indicates this area has average economic growth and job opportunities.

Income Levels – Above Average

The Maryland DHCD incorporates median household income levels as one of the six indicators used to measure community health, which represents wealth and quality of life in a community. Higher household income supports a more diversified economic base and increases the tax base and services of the local government.

The census tract where the property is located has a median income of $90,271, which is substantially higher than Baltimore County and the nation at $71,810 and $57,652, respectively. Within the tract there is a great disparity between median incomes for owners and median incomes for renters. Owners in the tract boast a median income of $107,500 while renters are only at $50,880. This disparity is partially due to a higher owner-occupied rate of around 70%. One of the community health indicators laid out by the Maryland DHCD is a higher owner-occupied rate, which correlates with the economic stability of the area. The high income, for both renters and owners, in this track compared with the county, metro area and nation put this opportunity metric above average for Red Run Station.

Exhibit 15: Median Household Income

	Tract	County	State	Nation
Median Income	$90,271	$71,810	$78,916	$57,652
Median Income - Owner	$107,500	$89,087	$99,209	$73,252
Median Income - Renter	$50,880	$48,571	$48,919	$36,653

Source: Freddie Mac Tabulations of 2017 5-Year American Community Survey

Access to Health Care – Above Average

The Maryland DHCD does not include an indicator for health care as contributing to opportunity in their methodology, so we rely on data from Opportunity360. The census tract scored very well for health and well-being, with an overall score of 95. The index score is based on seven measures assessing residents' health status and ability to access care. The diabetes rate in the census tract is only 10% versus the national average of 10%. Furthermore, 84% of adults have health care coverage compared with 75% nationally, and only 12% of adults have fair or poor health compared with nearly 18% on a national level. Based on these scores, we put this area at above average for access to health care.

Access to Transportation – Below Average

To assess the property's access to transportation, we rely on external data from Walk Score and Opportunity360. The property scored unfavorably with an overall "Walk Score" of just 13 out of 100. Almost all errands require a car and the area has some access to transit.

As evidenced by the Walk Score, most people in this area rely on cars or bikes rather than public transportation. According to data gathered by Opportunity360, 93.5% of people drive to work. People in this tract are also much more likely to commute more than an hour to work and almost all households own a vehicle. The Maryland DHCD uses median commute time as an indicator of the proximity to economic opportunity. Based on these scores, we believe Ren Run Station falls below average in access to transportation.

Exhibit 16: Access to Transportation

	Tract	Baltimore MSA	Nation
% Who Drive to Work	93.5%	84.9%	85.6%
% Who Walk to Work	0.9%	2.7%	2.7%
% Who Take Public Transportation	4.8%	6.5%	5.1%
% of Income Spent on Housing and Transportation	57.4%	-	41.0%
% Who Commute Over an Hour	14.9%	12.3%	8.9%
% of Households with no Vehicles Available	0.6%	10.9%	8.8%

Sources: Census ACS, HUD Location Affordability Index, Opportunity360

Property Information

Constructed in 2019 with 9% LIHTCs, Red Run Station is a 72-unit property owned by Enterprise Homes and Pax-Edwards. The property is a four-story mid-rise structure with 116 parking spaces situated on a nearby 3-acre parcel. The property features common area amenities including a central laundry facility, fitness center, café/community room, lounges, business center, outdoor recreation space with a community garden and dog park, and a large multipurpose room.

Exhibit 17: Property Characteristics

Unit Type	*Units*	*Average Sq. Ft.*
1 Bedroom	28	703
2 Bedroom	36	997
3 Bedroom	8	1,285
Total Residential	**72**	**915**

Geography	**State**	Maryland
	MSA	Baltimore-Columbia-Towson MD
	County	Baltimore
Property Details	**Style**	Mid-Rise
	Year Built	2019
	Number of Units	72
Ownership and Management	**Owner**	Enterprise Homes and Pax-Edwards
	Manager	R Homes Property Management

Source: Freddie Mac Investment Brief

Upon conversion, the property is encumbered by a LIHTC LURA (CDA LIHTC Covenant) and regulatory agreements between the borrower and Maryland Community Development Administration (MCDA) restricting 64 units (eight units at 30% AMI, 36 units at 50% AMI, 20 units at 60% AMI) and eight units at market rate. As a condition of financing, the MCDA Agreement requires the development to provide housing for individuals with disabilities and families and implement supportive tenant services.

Source: https://redrunoverlook.rhomecommunities.com/

The property supports 11 project-based Section 811 Supportive Housing for Persons with Disabilities units, under a Section 811 Rental Assistance Contract with Maryland DHCD. Seven units are wheelchair accessible and two units are adapted for use by visual- or hearing-impaired persons. In addition, the developer has been granted a Payment in Lieu of Taxes (PILOT) with Baltimore County that lasts 10 years commencing at conversion, with full taxes in year 11. The PILOT is offered in conjunction with the restrictions provided in the Baltimore County subordinate loan and effective as of July 1, 2019, and remains in place for 10 years. Exhibit 18 shows all the affordability requirements tired to the different subsidy programs.

Exhibit 18: Red Run Station Regulatory Agreements

Regulatory Agreement	Percent of Units	Percent of AMI	Number of Units
Low Income Housing Tax Credit	11.1%	30%	64
	50.0%	50%	
	27.8%	60%	
Baltimore County Regulatory Agreement	61.1%	50%	64
	27.8%	60%	
Maryland CDA Regulatory Agreement	11.1%	30%	64
	50.0%	50%	
	27.8%	60%	
Section 811 RAC/Use Agreement	15.3%	30%	11

Source: Freddie Mac Investment Brief

Financing Details

Red Run Station was financed through Bellwether Enterprise using Freddie Mac's 9% LIHTC Cash Loan with a forward commitment. Under this, Bellwether provides, and Freddie Mac purchases, a permanent loan to take out a third-party construction loan upon property stabilization.

Red Run Station benefits from multiple subsidies, abatements and subordinate debt options. The property highlights the importance of federal, state and local housing subsidies working together in the construction and preservation of affordable units.

Equity (56.2%)

Similar to many 9% LIHTC projects, the tax credit equity provides for the largest share of funds in the capital stack, accounting for all 56.2% of the equity in the project.

Debt (43.8%)

While the cost of construction exceeds $20 million, the Freddie Mac senior loan accounts for just 18.7% of the costs of construction. However, since this is a forward take-out of a construction loan, the as-is value of the property is substantially lower than the building's expenses at just $5,566,000. This equates to an approximate 74% LTV.

Public Contributions

Red Run Station benefits from two sources of local subordinate debt from Baltimore County and the Maryland Community Development Association (CDA). The property is subject to a Regulatory Agreement executed in conjunction with the note made between Baltimore County and the borrower in the amount of $3.5 million, dated April 30, 2018.

Summary

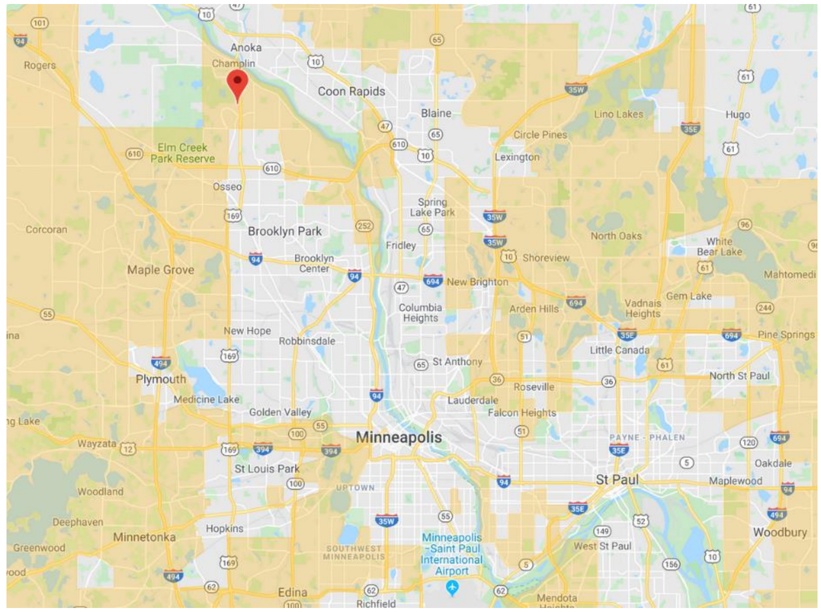
The market in which Red Run Station is located is growing as a commuter town and demonstrates numerous high opportunity features. This area meets 4 of the 5 opportunity indicators with decent access to education, a well-diversified local economy, relatively higher incomes and strong access to health care, but with limited access to transportation. Based on the strength of these indicators, the area around Red Run Station provides affordable housing in an area of high opportunity.

Red Run Station not only provides affordable housing, it also provides needed housing for people with disabilities, leveraging HUD's Section 811 program. In addition to LIHTCs, the property also benefits from public support from Baltimore County and Maryland CDA, contingent upon which is the deep and targeted support for those with lower incomes and with disabilities. This combination of federal, state and local support is a replicable model to target specific needs identified in local communities.

Case Study #3 – Legends of Champlin

The Twin Cities generally has one of the nation's tightest labor markets, evidenced by the metro's 2.9% unemployment rate as of August 2019, according the BLS. This suggests not just a strong market for jobs, but also high demand for housing. Minnesota boasts one of the lowest apartment vacancy rates in the nation. As a result, a larger percent of renters is more cost-burdened compared with the nation.

Additionally, when looking closely at the demographics of the areas from 2012 to 2017, the 55+ age cohort represented the fastest growing demographic, with an increase of 5.4%. Addressing the general need for affordable housing and the specific need for housing for low-income seniors is important in the Twin Cities metro and in Champlin. Legends of Champlin is an example of new affordable housing construction that is helping to contribute to supply focused on the 55+ cohort.



Source: Freddie Mac DTS Mapping Tool. Orange represents high opportunity areas based on QAPs.

Per Minnesota's QAP,[14] the Minnesota Housing Finance Agency defines opportunity, in part, through Community Economic Integration. This is defined as projects in higher-income communities with access to low and moderate wage jobs. The QAP offers two categories of economic integration: 1) the property is in a community where the median family income meets or exceeds the region's 40th percentile, or 2) the property is located in an area where the median family income meets or exceeds the region's 80th percentile.[15] Legends of Champlin is in an area of Community Economic Integration by the 80th percentile cut-off.

In this case study, we examine the neighborhood around Legends of Champlin to understand the features that contribute to it being a high opportunity area. We examine how the property provides needed affordable housing to the community and how its financing was achieved to support the lower rents. From this, we can better understand what financing tools are needed to support an age-restricted, low-income property in a high opportunity area.

Market Overview and Assessment of Opportunity

Legends of Champlin is located in the city of Champlin part of Hennepin County in the Minneapolis metro area. The Minneapolis Central Business District is located approximately 18 miles from the property, in the submarket of North Minneapolis, per RealPage. Legends of Champlin is located in an area with high income, low poverty and a low unemployment rate – indicative of an area with great economic opportunity.

[14] https://mf.freddiemac.com/docs/Opportunity_Incentives_in_LIHTC_Qualified_Allocation_Plans.pdf
[15] http://www.mnhousing.gov/get/MHFA_1041454

Per RealPage, occupancy in the Minneapolis market is very strong, with vacancy rates at 2.8% compared with the national average of 4.6%. Vacancy is even tighter at the submarket level at 2.3%. Vacancy rates have remained tight in Minneapolis in the past 5 years, only declining by 30 bps and 50 bps in the metro area and submarket, respectively. Despite the tighter vacancy rates, rent growth at the Minneapolis metro area has been on par with the national average and slightly higher at the submarket area.

Exhibit 19: Multifamily Rental Market Overview

	Submarket (North Minneapolis)	**Market** (Minneapolis – St. Paul – Bloomington)	**National**
2013 Rent	$810	$1,010	$1,063
2018 Rent	$1,045	$1,268	$1,334
5-Year Rent Growth	29.1%	25.6%	25.5%
2013 Vacancy Rate	2.7%	3.1%	5.4%
2018 Vacancy Rate	2.3%	2.8%	4.6%
5-Year Vacancy Difference	-0.5%	-0.3%	-0.8%

Source: RealPage

As seen in Exhibit 20, the Legends of Champlin's census tract percentage of cost-burdened renters is higher than the county, state and nation. However, despite the higher percentage of cost-burdened renters, the poverty rate is lower in the tract, at only 5.9%. These stats suggest that although renters are economically lagging on the tract level, conditions in the surrounding area are more positive, which supports the need for affordable housing in this area.

Exhibit 20: Market Characteristics

	Tract	County	State	Nation
Population Density	2,062.6	2,211.6	69.0	90.9
Poverty Rate	5.9%	11.5%	10.5%	14.6%
Renter Rate	14.4%	37.6%	28.4%	36.2%
Cost-Burdened Renter %	52.7%	47.3%	47.0%	50.6%

Source: Freddie Mac Tabulations of 2017 5-Year American Community Survey

To better assess the area and how it qualifies as a high opportunity area, we examine the community in terms of the five opportunity indicators. Using the same rating system as above, Exhibit 21 shows that Legends of Champlin is located in an area that has average ratings in 4 out of 5 of these indicators; access to education, economic growth and jobs, income levels and access to health care. The area is below average when measuring access to transportation. Taken together, based on location and alignment with these five indicators, this property provides access to opportunity.

Exhibit 21: Rating of the Five Indicators of High Opportunity

	Access to Education	Economic Growth/Jobs	Income Levels	Access to Health Care	Access to Transportation
North Minneapolis	✓	✓	✓	✓+	

Access to Education – Average

Using Great Schools, we located 12 schools within a 3-mile radius of the property address. The average score for these 12 schools was 5.9. The elementary, middle and high school assigned to the property are rated 6 out of 10. Opportunity360's report shows a positive outlook for educational attainment in the census tract. Per the report, the tract received an 86 on the opportunity index for education. The tract also has favorable statistics for adults who hold a high school degree or higher and adults who hold a bachelor's degree or higher. The tract reports that 97% have a high school diploma and 48% have a bachelor's degree, which is higher than the regional average of 93% and 40%, respectively.

Based on the average Great Schools ranking, and the higher percentage of population with a high school and college degree, we believe Legends of Champlin is in an area with average access to education. Similar to the case study in San Francisco, Legends of Champlin is an age-restricted property, which implies there are few children accessing the public schools who live at the property, but the decent schools and educational attainment of the area provides an overall benefit to the community by making it a more desirable place to live.

Economic Growth/Jobs – Average

Economic and job growth in Minneapolis has mirrored the nation in the past few years. Median household income in Minneapolis grew by 18.4% from 2013 to 2018, which was almost equivalent to the national rate of 18.5%. Both employment growth and population growth have generally outperformed the nation in recent history, but not by a significant margin. Growth in economic output has been virtually equivalent in each time frame in Exhibit 22, with the rates even equaling each other from 1998 to 2018.

Exhibit 22: Economic and Labor Market Growth

	5-Year Growth (2013-2018)		10-Year Growth (2008-2018)		20-Year Growth (1998-2018)	
	Minneapolis	Nation	Minneapolis	Nation	Minneapolis	Nation
Median Household Income	18.4%	18.5%	20.8%	19.0%	56.3%	54.3%
Population Growth	5.0%	3.5%	9.9%	7.6%	23.2%	18.6%
Gross Metro Product	23.0%	22.6%	42.2%	39.9%	127.1%	127.1%
Employment	8.2%	9.3%	9.4%	8.6%	17.9%	18.2%

Sources: Freddie Mac Tabulations of Bureau of Labor Statistics, CPI Household Survey, U.S. Census Bureau, U.S. Bureau of Economic Analysis and Moody's Analytics. Gross Metro Product growth is nominal.

Two areas where the Minneapolis's economy far outperforms the nation is unemployment rate and labor force participation rate. Per BLS, the unemployment rate for Minneapolis peaked in March of 2010 at 8.3%. By 2018, the unemployment rate dropped to just 2.7% – considerably lower than the national rate of 3.9%. In fact, Minneapolis has had a lower unemployment rate for every month in the past 10 years, with the gap averaging about 1.9%.

Minneapolis's labor force participation rate of 70.5% ranks 22nd among all of the nation's 382 MSAs and is substantially higher than the national rate of 62.9%. Like with the unemployment rate, Minneapolis's labor force participation rate has been higher than the national rate every month for the last 10 years. A high participation rate generally signals a plethora of job opportunities.

Minneapolis benefits from a highly educated workforce, strong population growth that outpaces other Midwest cities and the 19 Fortune 500 companies headquartered in the market. Some of the largest employers in the area include UnitedHealth Group, Target, U.S. Bancorp, General Mills and 3M.

The Minneapolis economy heavily relies on the following industries:

- Professional and business services
- Financial services
- Manufacturing

Meanwhile, the economy relies less on these industries:

- Natural resources and mining
- Leisure and hospitality
- Government

Although natural resources and mining makes up a relatively small percentage of the local economy, the sector grew by 19.6% in the past five years, which accounted for 13.2% of the economy's growth. Leisure and hospitality and financial services and were two other fast growers, increasing by 10.3% and 9.8%, respectively.

Income Levels – Average

The census tract where the property is located has a median income of $108,469, which is substantially higher than the state at $65,699 and nation at $57,652, respectively. Despite a six-figure median income, this tract shows great disparity between median incomes for owners and median incomes for renters. Owners in the tract boast a median income of $125,990, while renters are only at $35,495. Additionally, the cost-burdened renter percentage is 52.7%, thus demonstrating demand for affordable rental housing.

Exhibit 23: Median Household Income

	Tract	County	State	Nation
Median Income	$108,469	$71,154	$65,699	$57,652
Median Income - Owner	$125,990	$95,128	$80,592	$73,252
Median Income - Renter	$35,495	$41,045	$35,964	$36,653

Source: Freddie Mac Tabulations of 2017 5-Year American Community Survey

Access to Health Care – Above Average

According to Opportunity360, the census tract scored very well for health and well-being, with an overall score of 98. The index score is based on seven measures assessing residents' health status and ability to access care.[16] The diabetes rate in this census tract is 8% versus the national average of 10%. Meanwhile, 83% of adults have health care coverage compared with 75% nationally, and only 10% of adults have fair or poor health compared with nearly 18% on a national average. Based on these scores, we put this area at above average for access to health care.

Access to Transportation – Below Average

To assess the property's access to transportation, we rely on external data from Walk Score and Opportunity360. The property scored unfavorably with an overall Walk Score of 45 out of 100. The score indicates the property is in a "somewhat walkable" area and will benefit from future development of parks, schools and shopping, as the scoring methodology indicates these are the categories that fall below 50%.

[16] https://www.policymap.com/report_widget?type=op&area=predefined&pid=219739&sid=2010

As evidenced by Walk Score, people in this area rely on cars or bikes rather than public transportation. According to data gathered by Opportunity360, 3.9% of workers commute via public transit, slightly below the regional average of 4.7%. An estimated 88.2% of people drive to work, indicating this tract can benefit from policy that fosters development and public transportation incentives to continue to promote efficient systems.

Exhibit 24: Access to Transportation

	Tract	Minneapolis MSA	Nation
% Who Drive to Work	88.2%	85.9%	85.6%
% Who Walk to Work	1.0%	2.2%	2.7%
% Who Take Public Transportation	3.9%	4.7%	5.1%
% of Income Spent on Housing and Transportation	58.3%	-	41.0%
% Who Commute Over an Hour	4.2%	5.6%	8.9%
% of Households with no Vehicles Available	1.6%	7.3%	8.8%

Sources: Census ACS, HUD Location Affordability Index, Opportunity360

Property Information

Source: https://www.legendsofchamplin.com/

Constructed in 2017 with 4% LIHTCs, Legends of Champlin is a 184-unit affordable housing property owned by Dominium and operated by their management arm. The property is a four-story mid-rise, age-restricted (55 years and older) community located within the city of Champlin, in Minneapolis/St. Paul MSA. The property consists of 55 one-bedroom, 81 two-bedroom and 48 three-bedroom units. All of the units are restricted to households earning 60% AMI. Property amenities include 82 open parking spaces, 138 underground garage parking spaces, a clubhouse, fitness room, storage, salon (non-income producing) and security. Unit amenities include patio/balcony, fireplace (select units), dishwasher disposal, washer/dryer in-unit and walk-in closet.

The property is encumbered by four regulatory agreements that ensure affordability and service of the property for residents age 55 and older. These agreements are:

1. 30-year LIHTC Regulatory Agreement restricts 100% of units to households earning 60% of AMI and age-restricted to persons 55 years and older
2. 15-year Bond Regulatory Agreement with the city of Champlin. The Bond restricts 40% of units to households earning 60% AMI
3. 15-year Regulatory Agreement from the Champlin Economic Development Authority restricting 40% of units to households earning 60% AMI
4. 15-year Declaration of Restrictive Covenants restricting 100% of units to persons 55 years and older

Exhibit 25: Property Characteristics

Unit Type	*Units*	*Average Sq. Ft.*
1 Bedroom	55	822
2 Bedroom	81	1,159
3 Bedroom	48	1,311
Total Residential	**184**	**1,098**

Geography	**State**	Minnesota
	MSA	Minneapolis-St. Paul-Bloomington
	County	Hennepin County
Property Details	**Style**	Mid-rise
	Year Built	2017
	Number of Units	184
Ownership and Management	**Owner**	Dominium Holdings
	Manager	Dominium Management Services

Source: Freddie Mac Investment Brief

Financing Details Financing Details

The property benefits from 4% tax credit equity, sponsor-equity from Dominium, multiple layers of public support, including a TEL and taxable supplemental loan provided by Citibank and purchased by Freddie Mac. The combination of these allow for affordable housing to exist in such a high-cost market and underscores the importance of federal, state and local housing subsidies working together.

Equity (36.7%)

Legends of Champlin benefits from $9.5 million of LIHTC equity from 4% credits. The sponsor, Dominium, has also put forward about $4.5 million in cash equity.

Debt (63.3%)

In August 2016, Freddie Mac issued a forward commitment to Citibank to purchase a TEL in the amount of $20,447,000 and a taxable cash conversion supplemental loan in the amount of $3,675,000 for a total debt amount of $24,122,000 upon stabilization of the property after construction is complete. These loans are fixed rate for 15-year terms with a 35-year amortization. The forward commitments converted to permanent loans in March 2019 following completion of construction and stabilization. The property has $1,450,000 of soft subordinate debt from the Champlin Economic Development Authority (EDA).

Public Contributions

Public contributions were necessary for the property in two fundamental ways: issuance of a private activity bond tied to the use of the TEL, which generated over $20 million in senior debt financing, and the $1,450,000 subordinate loan from the Champlin EDA, which provided necessary capital for the property to be built.

Summary

Champlin, Minnesota is an economically integrated suburb of Minneapolis and based on our analysis, the neighborhood around Legends of Champlin meets 4 out of 5 of the opportunity indicators, including access to education, economic growth, income levels and access to health care. Additionally, the age 55+ population cohort is the fastest growing in the area, demonstrating a need to housing targeting to the demographic. Legends of Champlin serves two needs of the Twin Cities market: affordable housing for low-income seniors and local economic opportunity for the tenants. It does so by leveraging private activity bonds with the Freddie Mac TEL – a highly cost-effective form of tax-exempt financing – and public subordinate debt in a manner that can be readily replicated elsewhere in the country.

Conclusion

Our three case studies in this paper investigated three different high opportunity areas to understand the features of those communities that contribute to economic mobility and residential economic diversity. We assessed each community according to five primary indicators of opportunity, which, in various combinations, contribute to residents' ability to realize economic mobility and achieve positive life outcomes – regardless of their socioeconomic background: access to education, economic growth/jobs, income levels, access to health care and access to transportation. We also explored three properties in these areas to understand how they supported economic diversity and opportunity in the context of these markets, and state or local policy efforts to identify replicable financing methods.

We demonstrated that high opportunity areas vary across the country, with different emphasis on the five opportunity indicators. Not all opportunity areas feature all five indicators, but they do feature several. We also demonstrated replicable financing approaches that blend Freddie Mac debt, 9% or 4% LIHTC, and different local public subsidy and/or affordability requirements. While states and localities across the country have different programs and funding sources available to them, it is often the case that local contributions play an important role in enabling the development of affordable housing in high opportunity areas and furthering residential economic diversity.