



Real Estate Development

Business Plan

January 1, 2015 – December 31, 2015

Summary

DHIC continues to be the Triangle's market leader in affordable housing development, maintaining an emphasis on innovation, quality, attractive design, and green features at our properties. Our market position is dependent on sound acquisition, planning, and project management decision-making; project standardization and replication that does not compromise quality and value-added to communities; and more expansive relationships within and outside our core Wake County market that open doors to opportunity and increased scale.

This 2015 Business Plan summarizes recent challenges and emerging opportunities and outlines particular goals, tasks and benchmarks that we plan to accomplish over the next twelve months. Some goals represent a continuation of work catalyzed by a 2013 Expansion Grant from NeighborWorks America, and/or projected to be funded by a NeighborWorks Catalytic Grant. Because not all grant funds and/or LIHTC awards are assured, this plan will be reviewed and revised on quarterly basis to reflect economic realities and/or new opportunities.

Challenges and Opportunities for 2015

This business plan recognizes and seeks to address the following key challenges and opportunities:

Challenges

- The LIHTC market is increasingly competitive, with more for-profit developers wanting to enter or expand in the marketplace, tight caps on reservations, and annual uncertainty around NC's QAP, including scoring system changes.
- North Carolina's state tax credit loan program has been eliminated, replaced by a workforce housing loan program equivalent to only 25% of prior resources made available by the State. This funding environment makes it even more difficult to make things happen, particularly in certain markets.
- Continued shifts in the political environment and the will of public officials to support affordable housing.
- Commercial real estate lenders remain conservative and risk-averse.
- Scarcity of appropriately zoned land that is close enough to resources that earn maximum points in the QAP.
- Substantial financial risk to property owners associated with the holding period required by DHIC further limits site availability.
- Credit awards are coming down to cost per unit, which requires a focus on cost containment. This affects decisions about project aspects that meet other important goals, such as energy efficiency and other green components.
- Increasing competition for fewer soft financing resources for pre-development, land acquisition, etc.
- Lack of interest on the part of the state to support recapitalization and refinancing of Year 15 properties, and unrealistic expectations locally to support debt repayment.
- Construction costs and permanent financing rates are heading upward.

- Continued soft home lending, home sales, and single family construction markets, although signs are looking up.
- Without public subsidy, high land and site development costs decrease feasibility of affordable homeownership development.
- There are big gaps between local land use policy, development processes, and the ability to advance affordable housing in places that need it the most, particularly around downtown and transit oriented development.
- Growth in rental production locally – Triangle market is strong relative to nation.
- DHIC continues to maintain a very full pipeline, testing its project and asset management capacities.
- Washington Terrace currently represents 14% of DHIC’s portfolio in Wake County and its largest and most complex development opportunity in 40 years. This is a challenge as well as an opportunity.
- Uncertainty of development options and financing is pressuring DHIC, which must maintain a full pipeline to ensure future operations are adequately sustained.
- Opportunities to develop smaller scale rental developments that do not rely on tax credits are proving challenging and require higher incomes to work. Stones Warehouse project near DHIC’s Carlton Place is an example.
- Continuous need to educate public leaders about what DHIC does and the importance of affordable housing. Recent experience in Chapel Hill around an LIHTC project and in Raleigh as it implements a Unified Development Ordinance demanded significant staff time and resources.
- NIMBYism is a continuing challenge, and in some places, a growing one.

Opportunities

- Smaller scale rental developments that do not rely on tax credits may become an increasing means to continue production pipeline, but this is also a challenge, as noted above.
- Project feasibility consulting work in Wilmington offers the opportunity for DHIC to test this model for generating revenue and cultivating fee-development clients.
- Opportunities for acquisition/rehab of existing affordable housing stock as new construction and undeveloped sites are harder to find.
- Local government in Wake County has expressed interest in DHIC serving as fee-based developer for supportive housing. Other communities outside of Wake County have the need for permanent supportive housing like Lennox Chase and Brookridge. Opportunity to pursue and use alternate funding sources for this activity.
- Expansion grant from NeighborWorks offers the opportunity to expand DHIC’s volume (via Chapel Hill deal) and diversify income (via development consulting or construction services) long-term. Chapel Hill opportunity would expand DHIC’s footprint to a ninth county.
- Raleigh MSA is #1 in growth in seniors population – creates growth in demand for senior housing.
- Political climate reminds of us the importance of educating the public and the public sector about the benefits of affordable housing.

- Washington Terrace project offers opportunities for working with new community partners and funding sources. Potential for NeighborWorks Catalytic grant or Community Stabilization grant, building on resources from Enterprise and Wells Fargo.
- Staff changes in Raleigh city manager's office and community development department offer opportunity for new leadership, enthusiasm, and ideas.

2015 Goals and Benchmarks

As in past years, DHIC's Real Estate Development team will pursue multiple projects simultaneously, all of which will be in various stages of planning or construction. Benchmarks for construction projects are attached in **Table 2**.

A. Project Planning and Management

Goal 1: Successfully carry out year two activities associated with DHIC's NeighborWorks Expansion Grant.

<i>Tasks</i>	<i>Benchmarks</i>
Resubmit LIHTC tax credit application for Chapel Hill project.	Q1
Complete feasibility study for establishing a construction business for DHIC-generated projects and/or fee-development projects. (This activity was put on hold in 2014.)	Q3
Document process and lessons learned as development consultant for Lakeside Reserve in Wilmington, NC, to be included in final analysis of income-generating expansion opportunities.	Quarterly
If analysis, funding, and Board decisions warrant it, hire an experienced construction or development project manager to get new expansion activities off the ground.	Q4
Continue to investigate federal and state funding for special projects beyond LIHTC, including USDA, HHS for supportive housing, and VA for veterans housing.	Ongoing
Continue to cultivate relationships with CDCs, HBCUs, or compatible service providers with an eye toward fee development opportunities.	Ongoing

Goal 2: Undertake Washington Terrace-East College Park master planning and prepare site for first LIHTC application.

<i>Tasks</i>	<i>Benchmarks</i>
Secure funding through Catalytic Grant or other means to execute robust master planning process.	Q1
Coordinate and support Master Planning Consulting team (to be chosen Q4 2014). Master planning will continue through Q4 2015.	Monthly
Coordinate with Asset Management team to prepare 22 buildings	Q1-Q2

for demolition and site remediation	
Hire junior project manager to assist with all aspects of Washington Terrace planning and development	Q2
Conduct asbestos testing and remediation	Q3
Demolish 22 buildings, remediate site, and complete required feasibility studies for first LIHTC project application, to be submitted Q1 2016.	Q4

Goal 3: Maintain high standards necessary to retain Green NWO designation within budgetary means.

<i>Tasks</i>	<i>Benchmarks</i>
Continue to take advantage of green training opportunities for both staff and Board members.	Ongoing
Continue integration of Energy Star standards in developments to the extent that the NCHFA and/or other funders will pay for them.	Ongoing
Adjust strategy for maintaining Green NWO status based on evolving state policy and willingness to pay.	Ongoing

B. Rental Development

Goal 1: Complete construction on 101 rental units (Willow Creek and Emerson Glen) and advance a minimum of 164 rental units (Greenfield Place, phase 1 of Washington Terrace) through the development process. **See Table 2 for benchmarks.**

Goal 2: Expand our affordable rental pipeline by submitting at least three tax credit applications for decisions in FY 2015, obtaining a minimum of one tax credit reservation.

<i>Tasks</i>	<i>Benchmarks</i>
Submit applications for a minimum of three LIHTC projects (with a stretch goal to submit four projects), including resubmission of Chapel Hill project.	Q1
Receive a minimum of one tax credit reservation (stretch goal is two).	Q3
Continue policy-advocacy efforts around LIHTC, in particular, advocating for a QAP that is fair to non-profit developers and for expanding state and local resources for eligible projects.	Ongoing

C. Homeownership Development

Goal 1: Complete The Ten at South Person, 10 for-sale townhome units in downtown Raleigh that have been delayed due to complex City approval process and a revised financial model. **See Table 2 for benchmarks.**

Goal 2: Explore partnership with Habitat for Humanity around collaborative, mixed-income communities, including within the Washington Terrace-East College Park planning framework.

Outcomes Measurement

Measure	2014 Goal	10/14 Progress	2015 Goal
# of new affordable homeownership units completed	10	City approvals received and site work begun	10
# new affordable rental housing completed	100	12 of 16 buildings University Park—will achieve 100% COs by year-end	101
# affordable rental housing units in pipeline (new construction or gut rehab)	201	285	164
Number of new-construction, affordable units for which new funding is secured	Minimum of 60	0	Minimum of 80
Minimum development fee generated per unit of new construction	\$11,000	\$10,500	\$10,500

**Table 1: Rental Development Tasks and Benchmarks
FY 2014 Progress Report**

Project	Q4 2013 12/31/13	Q1 2014 3/31/14	Q2 2014 6/30/14	Q3 2014 9/30/14	Q4 2014 To Date
<i>Water Garden Village</i> (60 units; 6 special pop.)	Converted construction loan to permanent				
<i>Water Garden Park</i> (88 units, 9 special pop.)	Certificates of occupancy issued			Achieved 100% occupancy	Completed cost certification & 8609 issued; will pay off construction loan by 12/31
<i>Willow Creek</i> (53 units, 6 special pop.)		Submitted plans for building permits	Selected equity provider, construction and perm financing	Closed on equity and construction loan and began construction	
<i>Emerson Glen (fka, Camden Glen)</i> (48 units, 5 special pop.)	Learned that proposed site plan would not work with new UDO rules adopted by City. Decided to rezone the property.	Filed for rezoning		Rezoning approved; submitted site plan for approval	Site plan review completed
<i>University Park (f/k/a Royal Oak Gardens)</i> (100 units, 10 special pop.)	Received FHA firm commitment and purchased property in Oct. 2013; Dry closing on equity; began relocation to prepare for 1 st phase of construction	Received approval for early start of construction in Jan. 2013 and residential rehab began; FHA initial endorsement in Feb. 2014; closing on NCHFA loans and funding of first equity capital contribution	Construction; received certificates of occupancy as buildings are complete	Construction; received certificates of occupancy as buildings completed	Construction; received certificates of occupancy as buildings completed. As of 10.10.14, will have completed and reoccupied 12 of 16 residential buildings and community center is under construction.
<i>Greenfield Place</i> (84 units, 9 special pop.)	Selected by Town of Chapel Hill to develop a town-owned parcel into affordable rental housing	Submitted preliminary tax credit application	Submitted full tax credit application	Did not receive tax credit award	Town Council voted to give us another chance to secure tax credits in 2015
<i>The 10 at South Person</i> (10 townhomes for sale)	Approved by Planning Commission	Encroachment Agreements approved by City	Site CDs approved by City	Formal marketing begins including open house, site work begins	All ten homes are under contract

**Table 2: Rental Development Tasks and Benchmarks
Projects in FY 2015 Pipeline**

Project	Q4 2014 12/31/14	Q1 2015 3/31/15	Q2 2015 6/30/15	Q3 2015 9/30/15	Q4 2015 12/31/15
<i>Water Garden Park</i> (88 units, 9 special pop.)	Receive final equity disbursement and pay off construction loan				
<i>Willow Creek</i> (53 units, 6 special pop.)	Construction continues through early Q3			Construction complete and lease-up well underway	Achieve 100% occupancy; complete draft cost certification
<i>Emerson Glen</i> (fka, Camden Glen) (48 units, 5 special pop.)	Identify equity provider and construction and perm lenders	Close on equity and construction financing and begin construction			Complete construction
<i>University Park</i> (f/k/a Royal Oak Gardens) (100 units, 10 special pop.)	Receive 100% of COs by end of quarter and reach 94% occupancy	Full completion of project including 100% occupancy; produce draft cost cert	Complete inal cost cert	Final endorsement on FHA loan	
<i>Greenfield Place</i> (84 units, 9 special pop.)		Submit preliminary tax credit application	Submit full tax credit application	Receive tax credit award and begin more detailed design and due diligence	
<i>Washington Terrace</i> (redevelopment of 245 units on 25 acres)	Apply for grant funding to help assist with master planning, design and community engagement	Begin master planning and community engagement process		Well underway with master planning process; determine a phase of development best suited for tax credit project(s)	Complete master planning process; prepare to submit one or two tax credit applications
<i>The 10 at South Person</i> (10 townhomes for sale)	Building construction begins	Construction continues	Construction is completed and home sales are completed		