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 the area median incomes (AMI) as shown below:

Affordable unit type/size	AMI level required
Studio/Efficiency	50% AMI
One Bedroom	50% AMI
Two Bedroom units and larger	60% AMI

- 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. A housing unit is defined as a single dwelling space that is self-contained and intended for one household with its own bathroom and kitchen. Single family rental properties and shared group quarters cannot be acquired through this program.

Affordable Units: rental housing units with rents and income restrictions as set out in the above table.

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

- 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 40 years. If a property is sold, a recorded affordability declaration will preserve affordability for the full length of the affordability period.
- Affordability terms will be in place through a declaration recorded in the Hennepin County property records and will remain in effect for as long as the loan is outstanding or 10 years, whichever is longer.
- Loan amount not to exceed $35,000 per affordable unit at or below 50% or 60% of AMI (depending on unit type).
- All projects are 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: 1.20 minimum for year 1 and a minimum of 1.10 for years 2- 20. Should the project reflect negative cash flow, an operating deficit reserve account in an amount equal to no less than six months of management and operating expenses and debt service will be required to be capitalized at the initial closing.

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: The replacement reserve guideline is set at** $250 per unit per year out of cash flow unless an independent capital needs assessment (CNA) is completed that supports a smaller amount of replacement reserves.

6. **Vacancy Rate: 7%** minimum for residential/20% for Commercial. A 5% vacancy rate is permissible if supported by extensive operating history.

7. **Rent roll:** A copy of the existing rent roll must be provided. In addition, rent rolls for the previous six (6) months will be required. If current vacancy rate exceeds the proforma vacancy rate, a written marketing plan to achieve proforma vacancy should be provided.

8. **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

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

10. **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 and Affirmative Marketing 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 10th anniversary of the closing date, whichever is later, the following affordability requirements apply:

- 20% of such units affordable to and occupied by households at or below 50% or 60% AMI [depending on unit type], as evidenced by the rent roll. There is a preference for 2 bedrooms & larger, longer affordability and a higher percentage of units restricted at 50% of AMI or lower.
- Owners must accept Section 8 Housing Choice Vouchers and complete an Affirmative Fair Housing Marketing Plan (AFHMP) approved by the City.
- The City will review screening criteria to ensure there are no onerous requirements in conflict with the NOAH Fund's affordability and affirmative marketing goals.

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.
- The Renter Protection requirements of these guidelines apply to both restricted and unrestricted units in any property acquired with a NOAH preservation loan.
- All existing and new renters must be notified of the program's Affordability and Renter Protection 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 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. Prior to increasing the rents above 5%, the property owner must seek written approval from the City.
- When there is unit turnover, rents may be increased above 5%, as long as the rent does not exceed the rent limit designated for that unit.
- All generally applicable City of Minneapolis tenant protection ordinances will apply.
- 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.

Borrower contributions and fees

Minimum 5% contribution by the borrower. Total borrower contribution to the project must equal 5% of the total development cost for the project. At least 3% must be an equity cash contribution. The remaining 2% may be either additional equity cash contribution or structured as a personal guaranty. Fees paid to Borrower will not exceed 2% of the acquisition cost.

Borrower application process

Applications will be accepted on a rolling basis subject to availability of funds, during portal availability windows. City staff will provide at least 14 days' advance notice of when the NOAH application portal will open for applications. Applications will be evaluated on a first-come, first-served basis except that there is a preference for projects that will preserve 2 bedroom & larger units, agree to longer affordability and/or a higher percentage of units restricted at 50% of AMI or lower and proposals that include such will receive priority consideration. Once City capacity for making NOAH Preservation Loans is reached, the City will reject all remaining applications until the next portal window. The decision on whether to award a loan to an application will be made by the City in its sole discretion.

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 for the three years prior to the date of application submittal 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)

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