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IDA Economic Development Summit 2019

Economic Development Summit Oklahoma City, OK May 2019



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#IDAEconDev19

Looking for the Missing Middle: Dealing with Hurdles to Producing Middle Market Downtown Housing

Thursday, May 2 | 2:30 pm – 3:45 pm

Speakers:

Gary Ferguson, Executive Director, Downtown Ithaca Alliance (Ithaca, NY)

Sharon Gordon-Riberino, Field Office Director, HUD (Tulsa, OK)

Cheryl Vinall Denney, Attorney, McAfee & Taft (Oklahoma City, OK)

Blair Humphreys, Executive Vice President, Humphreys Capital (Oklahoma City, OK)



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Sharon Gordon-Ribeiro, Field Office Director-OKC & Tulsa, U.S. Department of Housing and Urban Development, Oklahoma City, Oklahoma



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HUD Section 221(d)(4) Program Basics

Section 221(d)(4) insures mortgages for the New Construction (NC) or Substantial Rehabilitation (SR) of multifamily rental or cooperative housing.

Eligible Borrowers:	Single-asset, special purpose entity (either for profit or nonprofit)
Eligible Properties:	Market rate, affordable, or rental assisted properties with 5+ units
Commercial Space:	Commercial space is limited to 10% of project's gross floor area or 15% of project's gross income, whichever is less
Term & Amortization:	During the construction phase, loan is both fixed-rate and interest-only for up to 36 months. After this, there is an additional 40 years of fully amortized, fixed-rate payments (maximum term of 43 years)
Loan Amount:	Minimum \$2 million (typical loans are \$15 million+); no maximum
Mortgage Insurance Premium (MIP):	Beginning at closing, an annual MIP is paid for each year of construction and then every following year thereafter. The baseline MIP for a market rate property is 65 basis points, but there are MIP reductions for affordable properties and properties that meet green standards
Application:	Applications have either a two or one-stage process: <ul style="list-style-type: none"> • For market rate properties, there is a two-step process, pre-application followed by the firm application • For affordable and rental assistance properties, MAP one-stage processing (Multifamily Accelerated Processing) may be used
Timeline:	One-stage applications for affordable and rental assistance properties generally take 5 - 7 months to close, whereas two-stage applications for market rate properties generally close in 8 - 12 months

HUD-Approved Multifamily Accelerated Processing (MAP) Lenders

Multifamily Accelerated Processing (MAP) is a national “fast track” processing system for the FHA multifamily mortgage insurance programs. MAP makes the lender responsible for preparation of most of the exhibits required for an application for mortgage insurance, and for making a recommendation to HUD based upon the Lender’s processing and underwriting. HUD reviews the Lender’s exhibits and makes the final underwriting decision.

Qualified MAP lenders must have experience underwriting multifamily housing loans and applying for FHA multifamily mortgages insurance. Once a lender is qualified, it may operate on a nationwide basis. Regardless of a project’s location or the HUD office that will process the loan, qualified MAP lenders can serve clients across the country.



KEY TAKEAWAY

MAP Lender serves as the conduit to getting the loan packaged and submitted to HUD

List of HUD-Approved MAP Lenders:

<https://www.hud.gov/sites/dfiles/Housing/documents/aprvlend.pdf>

Estimated Timeline for HUD 221(d)(4) Loan

The average time from engagement to closing a 221(d)(4) transaction is between 8 and 12 months. The development team members, which include the borrower/developer, general contractor, and management company, should have prior multifamily and HUD experience to qualify for this program.



First 4 to 6 weeks

Lender will order a market study, and prepare for a Concept Meeting with HUD to propose the transaction.



4 to 5 weeks

After the Concept Meeting, the lender will order a Phase I Environmental Report as well as an Appraisal. The Underwriting Team will prepare the Narrative to submit to HUD for Pre-Application.



5 to 7 weeks

During this period, the lender will collect documents, review plans, and construction costs to prepare package to submit a Firm Application to HUD.



5 to 7 weeks

Complete the underwriting with the finalized construction costs and reviews along with the information obtained in the Third Party Reports. Prepare Firm Application to HUD.



4 to 6 weeks

After receiving the Firm Commitment from HUD, the closing process begins the legal representatives from the lenders and borrowers, and rate lock the loan.



4 to 5 weeks

Submit closing documentation to HUD to close the transaction.

HUD Section 221(d)(4) Program Benefits

- **High Loan-to-Value Ratio (LTV)** allows developers to obtain a larger loan with less money down. For the 221(d)(4) program, market rate properties can qualify with 85% LTV, affordable properties with 87% LTV, and properties with 90% or more low-income units can qualify with 90% LTV.
- **Non-Recourse** means that developers and investors do not have to sign a personal guarantee to take on the loan. So, if they default on their mortgage, the lender cannot repossess their personal property to repay the loan.
- **Fixed-Rate** loans guarantee greater financial stability for investors and developers. This is because the interest rate won't fluctuate during the life of the loan. Plus, these construction loans have a maximum term of 40 years (43 with construction).
- **Flexible Loan Size**, with a minimum of \$2 million, and no maximum loan size.
- **LIHTC:** 221(d)(4) loans can be used with the **Low Income Housing Tax Credit (LIHTC)** program for affordable properties. This can save developers and investors significant amounts of money by giving them a 10-year tax deduction (if the property qualifies).
- **BSPRA:** HUD multifamily construction loans allow the general contractor (GC) to turn their profit into equity, deferring it until later. This program, called **Builder Sponsor Profit Risk Allowance (BSPRA)**, can reduce the amount of cash needed at closing.
- **No Income Limits:** 221(d)(4) loans are often used to create housing for moderate-income families, the elderly, and handicapped residents who have been priced out of the rental apartment market. However, there are no income limits for FHA's multifamily financing program.
- **Low MIP:** The MIP for 221(d)(4) is 0.65% for market rate properties and 0.45% for Section 8 or LIHTC properties. In addition, ultra-low 0.25% green MIP is available for Energy Star-approved energy efficient development projects.

Sample 221(d)(4): Oklahoma City, OK

Steelyard Apartments

- Mixed-use development residential on the former site of Stewart Metal Fabricators in east Bricktown
- Honors city's history while bringing new vibrancy to the area
- 33 affordable units included as part of the Neighborhood Stabilization Program (NSP); NSP is a special allocation to the Community Development Block Grant (CDBG) Program
- NSP provides assistance to acquire and redevelop properties that might otherwise become sources of abandonment and blight

221(d)(4) New Construction

Loan Amount: \$39,491,800

Total Units: 250

Sample 221(d)(4): Oklahoma City, OK

Sooner Haven

- \$9 million RAD conversion of existing public housing development
- Will preserve 150 units of affordable housing for the city
- Proceeds of new FHA-insured loan will go to substantially improving resident living conditions
- Renovations to have very little impact to residents; any relocation costs during construction paid for by the property



221(d)(4) Substantial Rehabilitation

Loan Amount: \$8,991,000

Total Units: 150

Sample 221(d)(4): St. Louis, MO

One Cardinal Way

- 29-story high-rise offering unobstructed views directly into Busch Stadium, as well as the Gateway Arch, Mississippi River, and St. Louis skyline
- One of the nation's first and largest stadium-anchored, multiphase, mixed-use developments
- First floor to include 10,000 square feet of restaurant, retail, and lifestyle amenity space



221(d)(4) New Construction
Loan Amount: \$85,000,000
Total Units: 297

Sample 221(d)(4): Fort Worth, TX

Encore at Panther Island

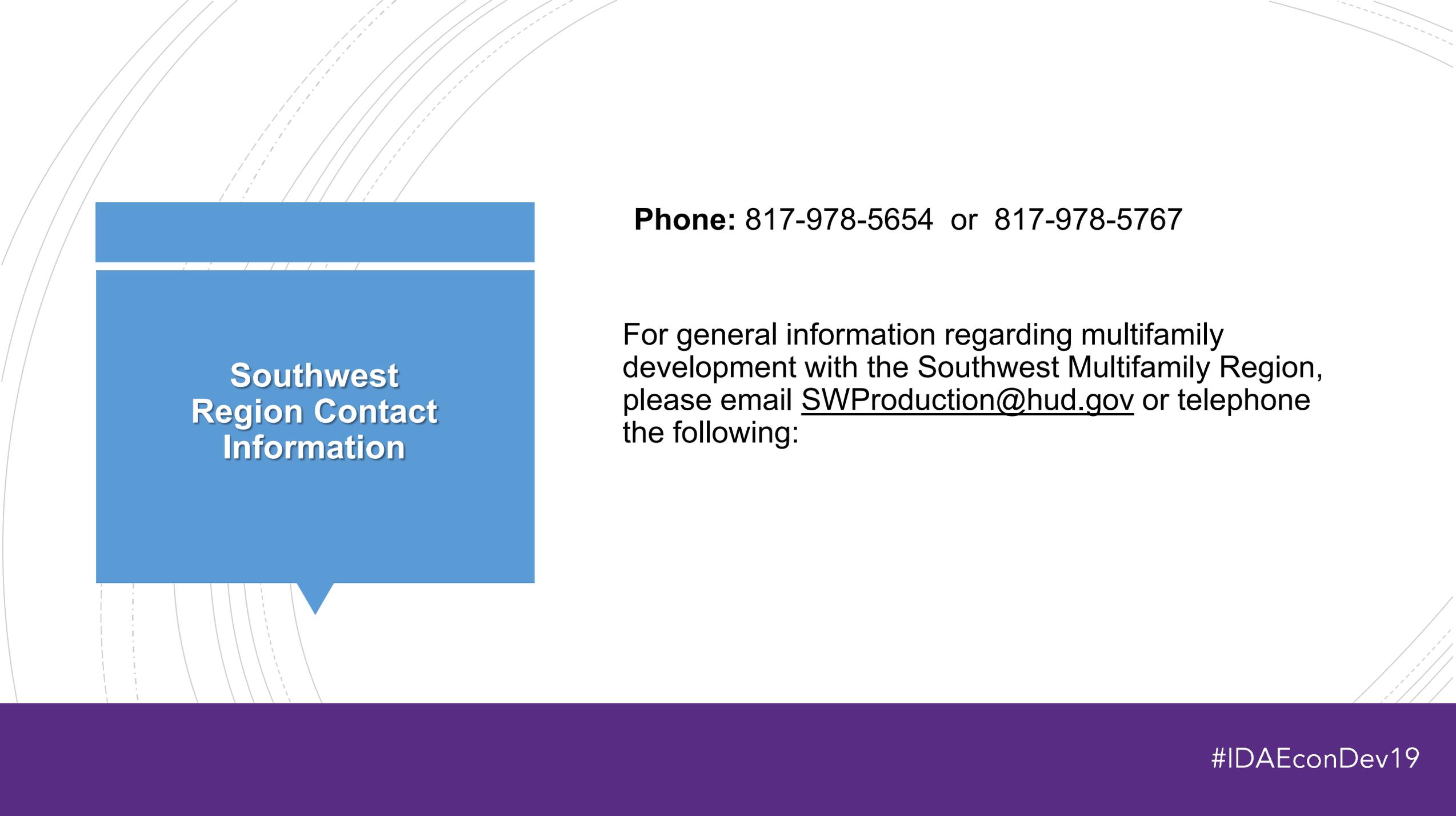
- Trinity River Vision master-planned, revitalized project aimed at creating an urban waterfront community to the north of downtown Fort Worth
- Canal to run through the center of project and provide a continuous public boardwalk along the water's edge



221(d)(4) New Construction

Loan Amount: \$46,968,200

Total Units: 300



**Southwest
Region Contact
Information**

Phone: 817-978-5654 or 817-978-5767

For general information regarding multifamily development with the Southwest Multifamily Region, please email SWProduction@hud.gov or telephone the following:

A yellow diamond-shaped sign with a black border and a blue background, reading "OPPORTUNITY ZONE AHEAD". The sign is centered on a white background with a blue circular splash effect behind it. The text is in bold, black, uppercase letters.

**OPPORTUNITY
ZONE AHEAD**

What Is Opportunity Zone?

An Opportunity Zone is an economically-distressed community where new investments, under certain conditions, may be eligible for preferential tax treatment. Localities qualify as Opportunity Zones if they have been nominated for that designation by the state and that nomination has been certified by the Secretary of the U.S. Treasury via his delegation of authority to the Internal Revenue Service.

Opportunity Zone Purpose

- Opportunity Zones are an economic development tool designed to spur economic development
- Job creation in distressed communities.

Additional Information: <https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions>

HUD'S REQUEST FOR INFORMATION

How HUD should use its existing authorities to maximize the beneficial impact of public and private investments in urban and economically distressed communities?

Whether HUD should create an information portal, and what information it should include?

How HUD should prioritize support for urban and economically distressed areas, including Opportunity Zones, in its grants, financing, and other assistance?

What types of technical assistance should be offered through HUD?

How HUD can ensure existing residents, businesses, and community organizations in Opportunity Zones benefit from the influx of investment?

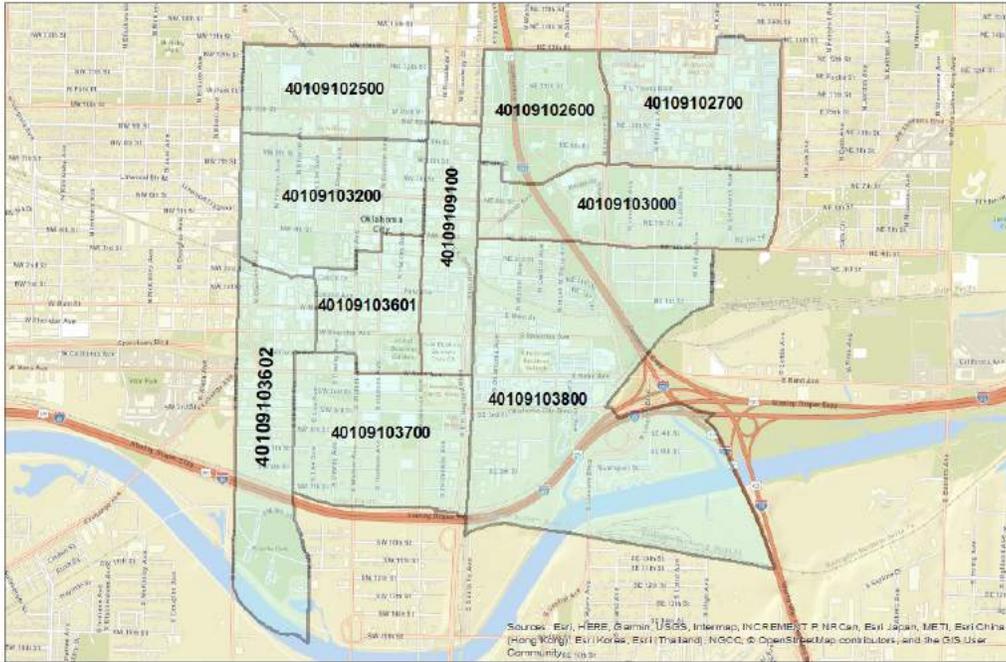
How HUD can properly evaluate the impact of Opportunity Zones on communities?

How HUD should interact with other stakeholders to maximize the success of the Opportunity Zone incentive?

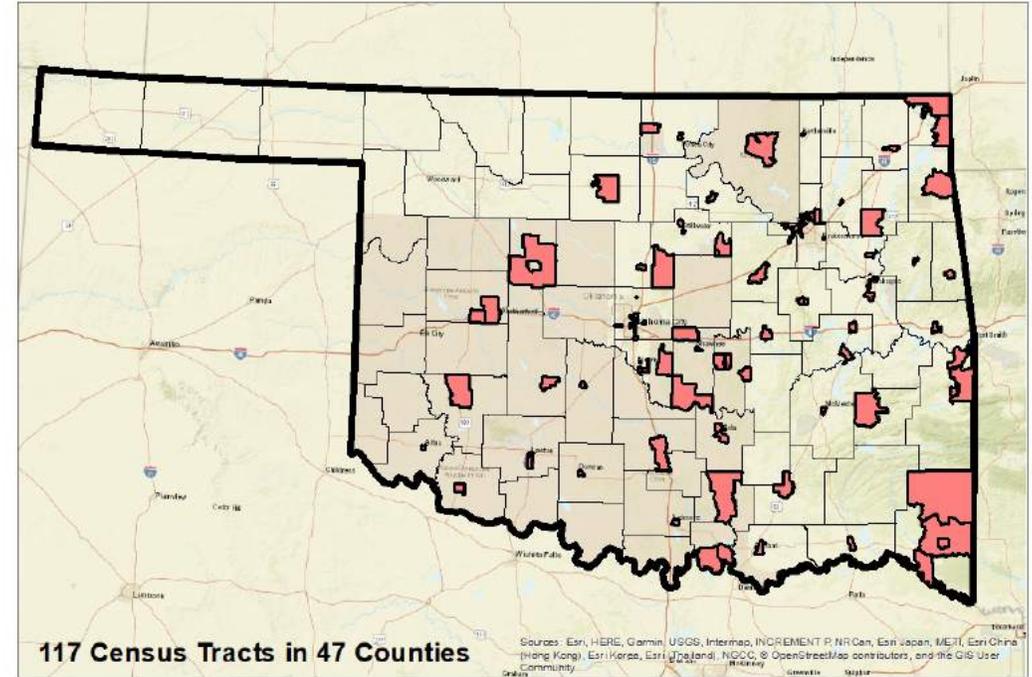
How Qualified Opportunity Fund investments might support the goal of ending homelessness?

Any other aspects of Opportunity Zones that should be considered and are not addressed in this request for information.

Opportunity Zones Downtown OKC Area



Opportunity Zones State of Oklahoma



Opportunity Zones In the State of Oklahoma

Cheryl Vinall Denney, Co-Head of Economic Development Practice Group, McAfee & Taft,
Oklahoma City, OK



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Using Tax Credits for Housing

- HUD Debt Financing (Sharon has addressed)
- Affordable Housing Credits
- Historic Rehabilitation Tax Credits
- New Markets Tax Credits
- Opportunity Zone Incentives
- Other State and Local Incentives

Affordable Housing Tax Credits

- “Low-income” is different by market and isn’t always what you expect
 - Teachers / Police officers / Young professionals
- Can use for single-family dwellings or multi-family projects
- Provides equity financing at stages during construction with majority provided at completion
- Competitive application process
 - 9% credits intended to provide 70% of required financing
- Complicated structure

Oklahoma City Example

- 40/60 Test
 - At least 40% of units must be rent-restricted and have tenants making 60% of area median income or less
 - AMI Test
 - 2 person family – 50% AMI is \$34,700
 - 4 person family -- 50% AMI is \$41,640
 - Rent Restrictions
 - 1 bed -- \$781 / month
 - 3 bed -- \$1083/ month

Historic Rehabilitation Credits

- Buildings and/or neighborhoods listed on National Register
- 20% credit based on qualified rehabilitation expenditures (QREs)
 - 10% credit eliminated
- Provides equity financing at stages during construction with majority provided at completion
- Amount of financing dependent on amount QREs
- Required compliance with National Park Service standards
- Complicated structure

New Markets Tax Credits

- Intended to attract investment to low-income areas
- Generally considered a business tax credit **BUT** can work for mixed-use projects if at least 20% of gross revenue is from commercial use
- Provides debt financing completely upfront
- Competitive process to obtain credits
- Net equity (after fees) is generally 20-22% of amount of allocation
- Complicated structure

Opportunity Zone Incentive

- New program adopted with tax reform at end of 2017
- Second tranche of regulations just issued
- Not a tax credit but an “icing on the cake” incentive to attract equity investors to low-income areas
- Can be used for rental housing, commercial or mixed use
- Tax incentives for investors
 - Deferral on capital gains taxes until 2026
 - Adjustment to basis if hold 5-7 years means potentially less tax paid in 2026
 - No tax on appreciation if hold for at least 10 years and sell by 2047

Other State and Local Incentives

- *State* programs that “piggy-back” on federal programs
 - Affordable Housing
 - Historic Rehabilitation
 - New Markets Tax Credits
 - Opportunity Zones
- Tax Increment Finance (TIF)
- Workforce Housing Grants
- Waiver of Local Fees

Final Thoughts

- Mix and match the programs
- Consider other non-traditional forms of financing
 - Foundations and Program-Related Investments (PRIs)
- Understand fee structures
- Involve your accountants and auditors early
- Beware of income tax implications
- Know the exit procedure and related costs before closing

Blair Humphreys, Developer, Wheeler District, Oklahoma City, Oklahoma



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Project History

1993

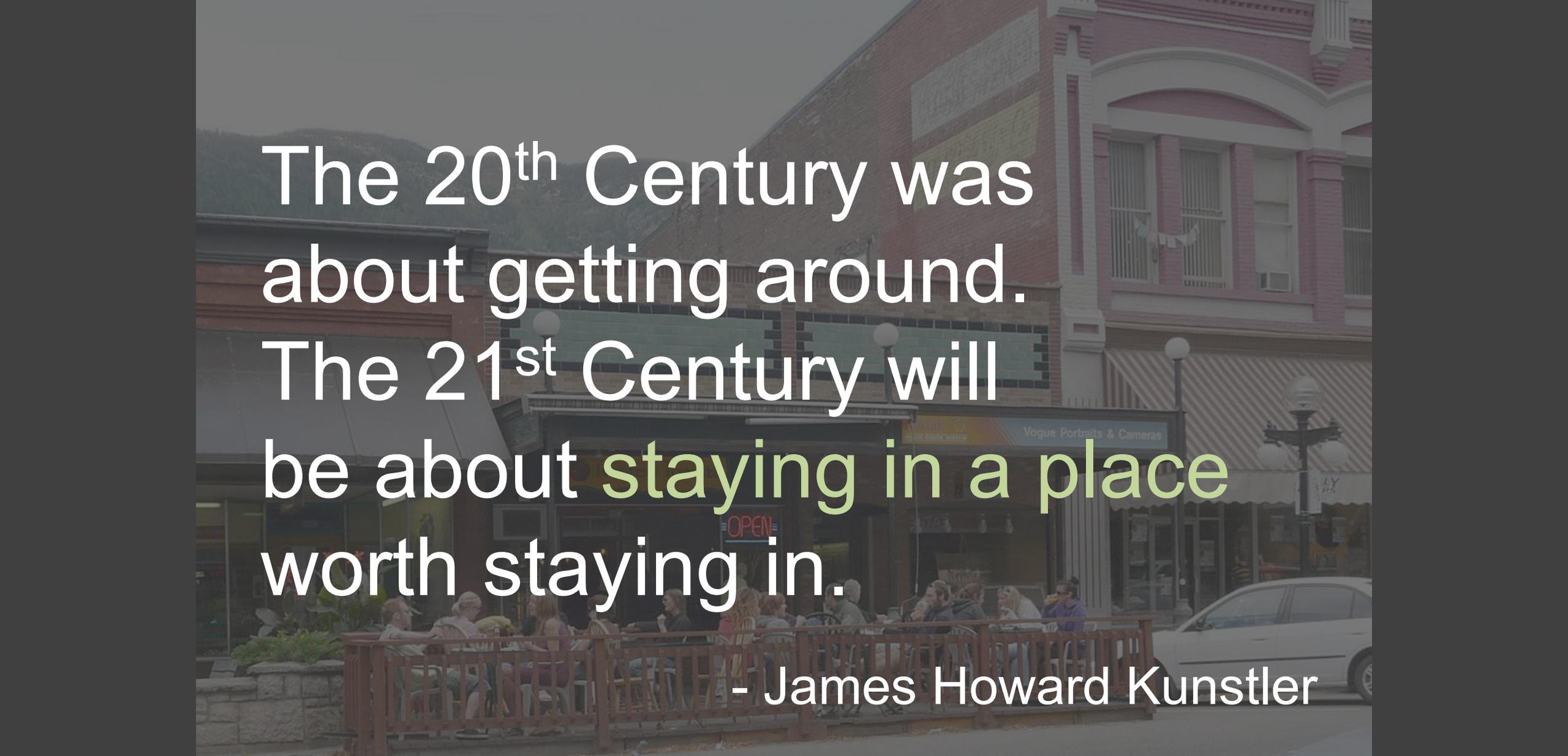
Metropolitan Area Projects (MAPS)



2004

Oklahoma River Improvements



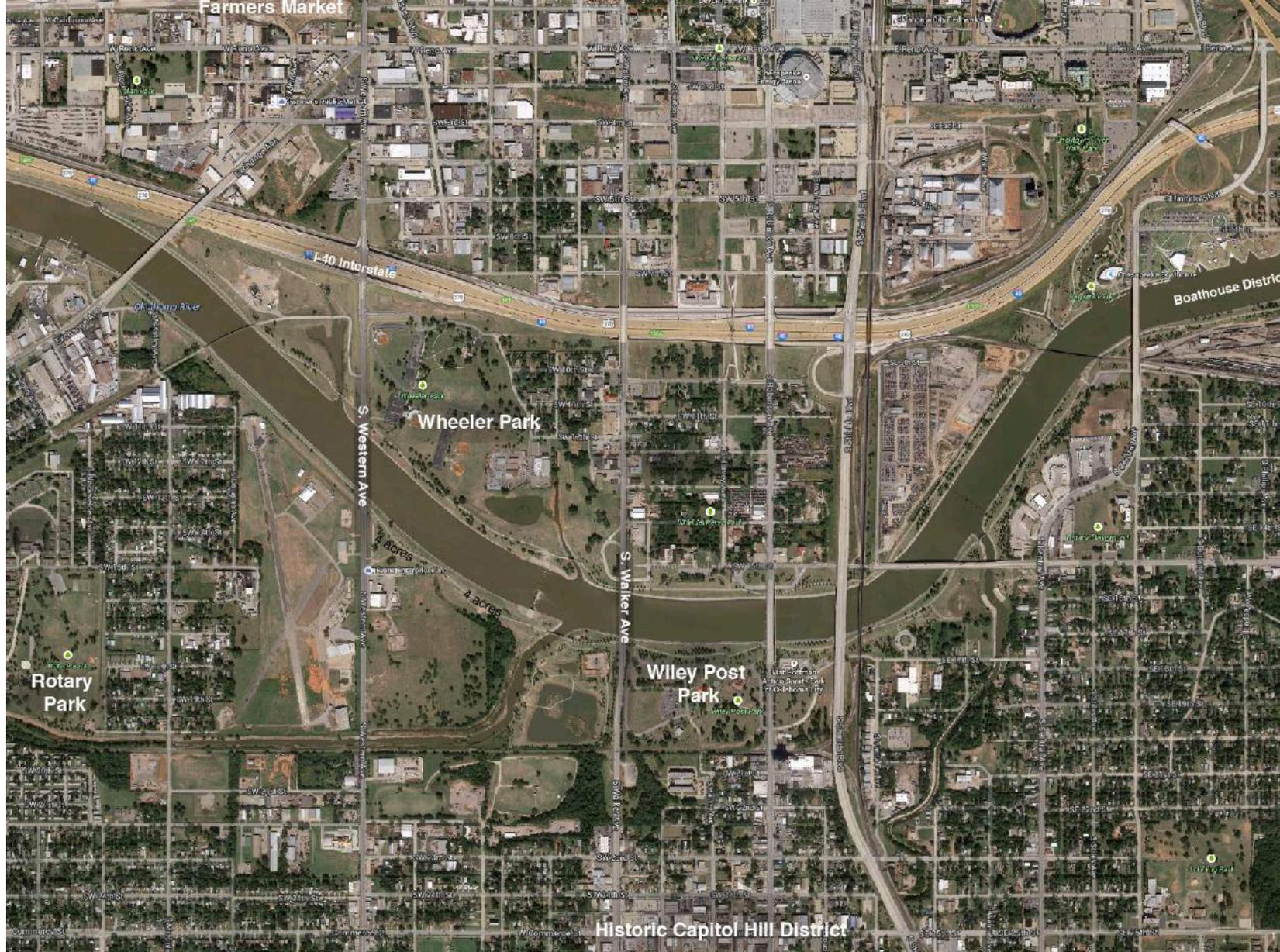
A street scene featuring a brick building with a cafe. The cafe has an outdoor seating area with a wooden railing where several people are sitting. A white car is parked on the street to the right. The text is overlaid on the image.

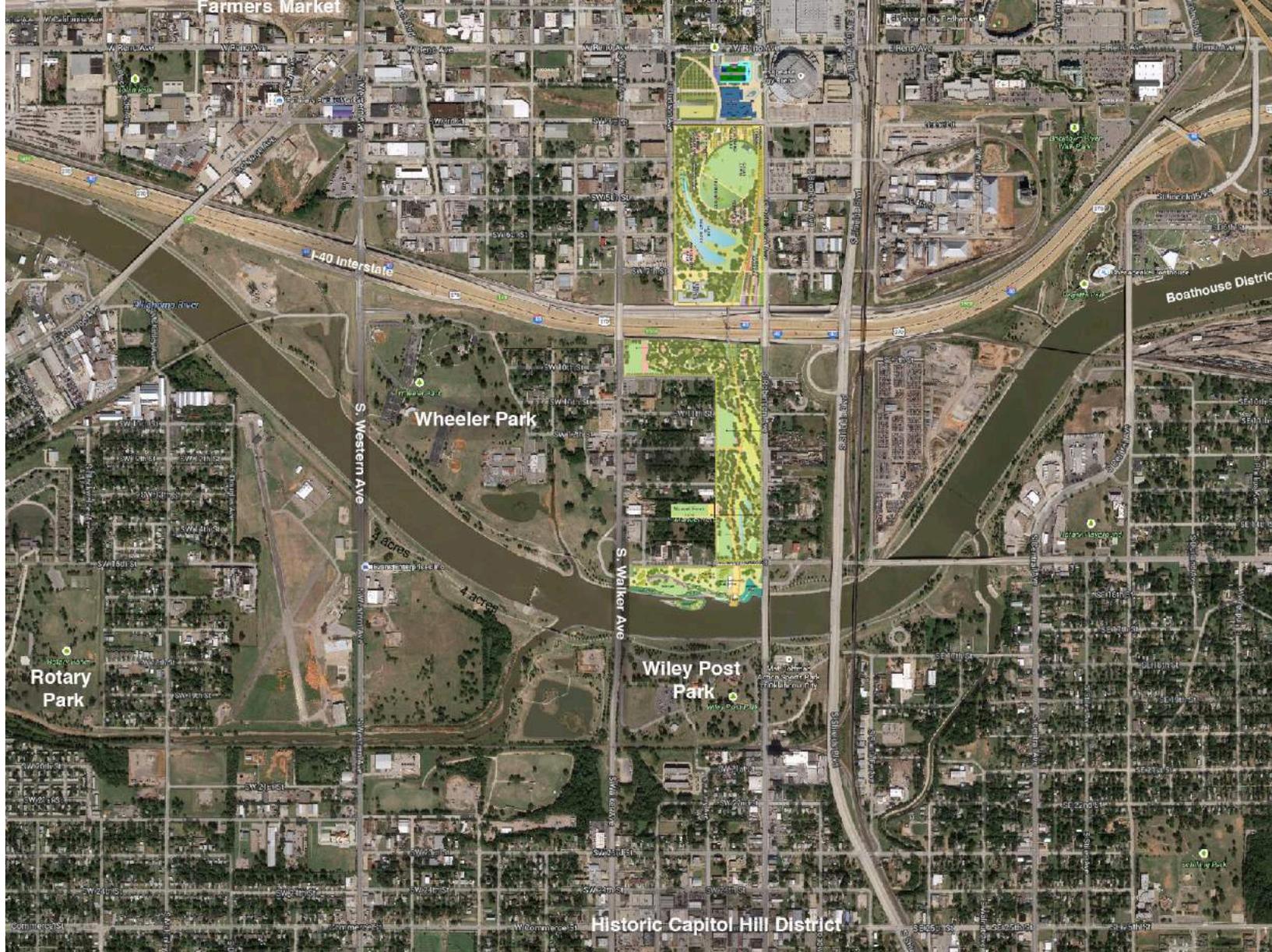
The 20th Century was
about getting around.
The 21st Century will
be about **staying in a place**
worth staying in.

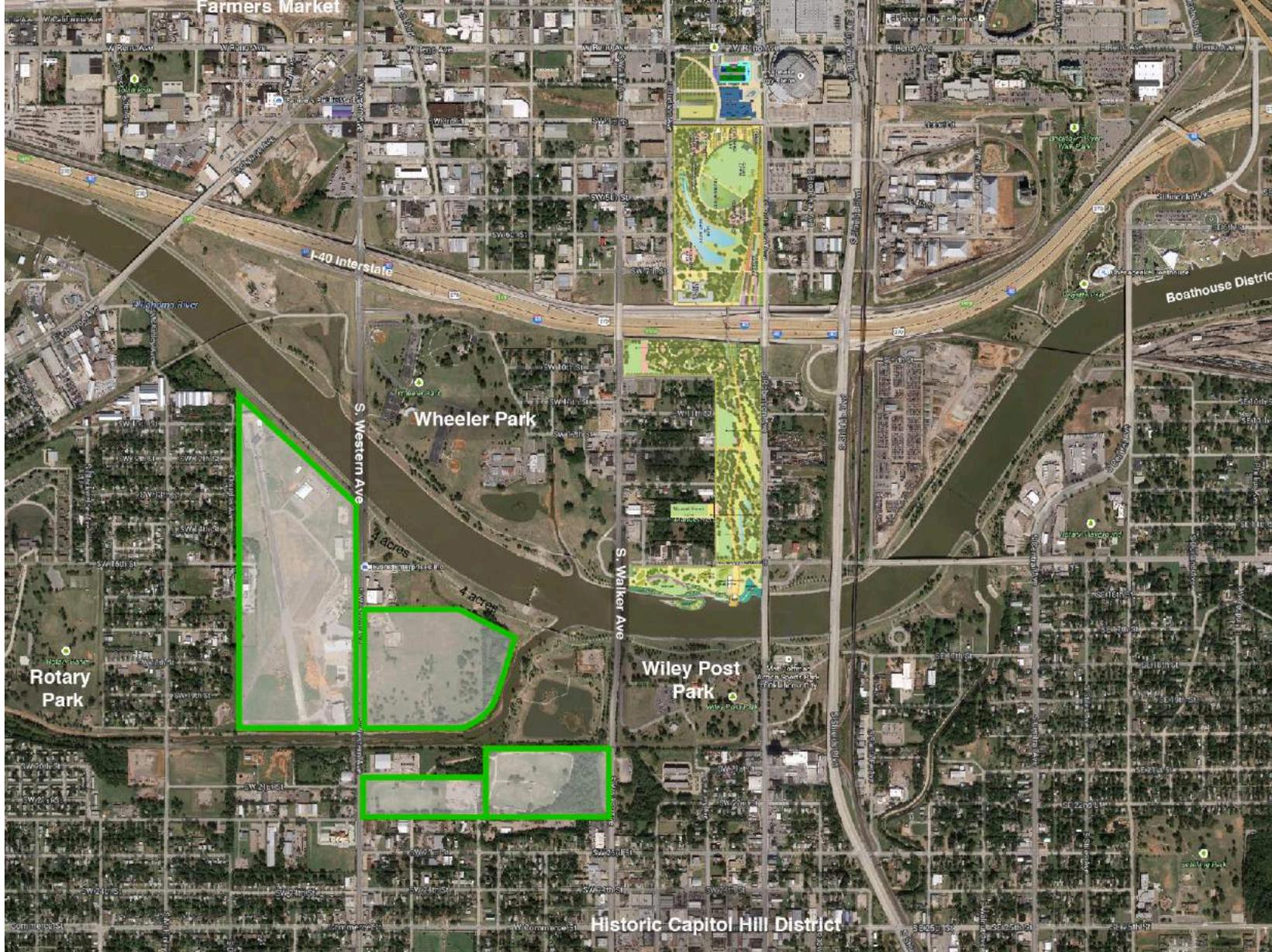
- James Howard Kunstler

2006

Acquire Former
Downtown Airpark









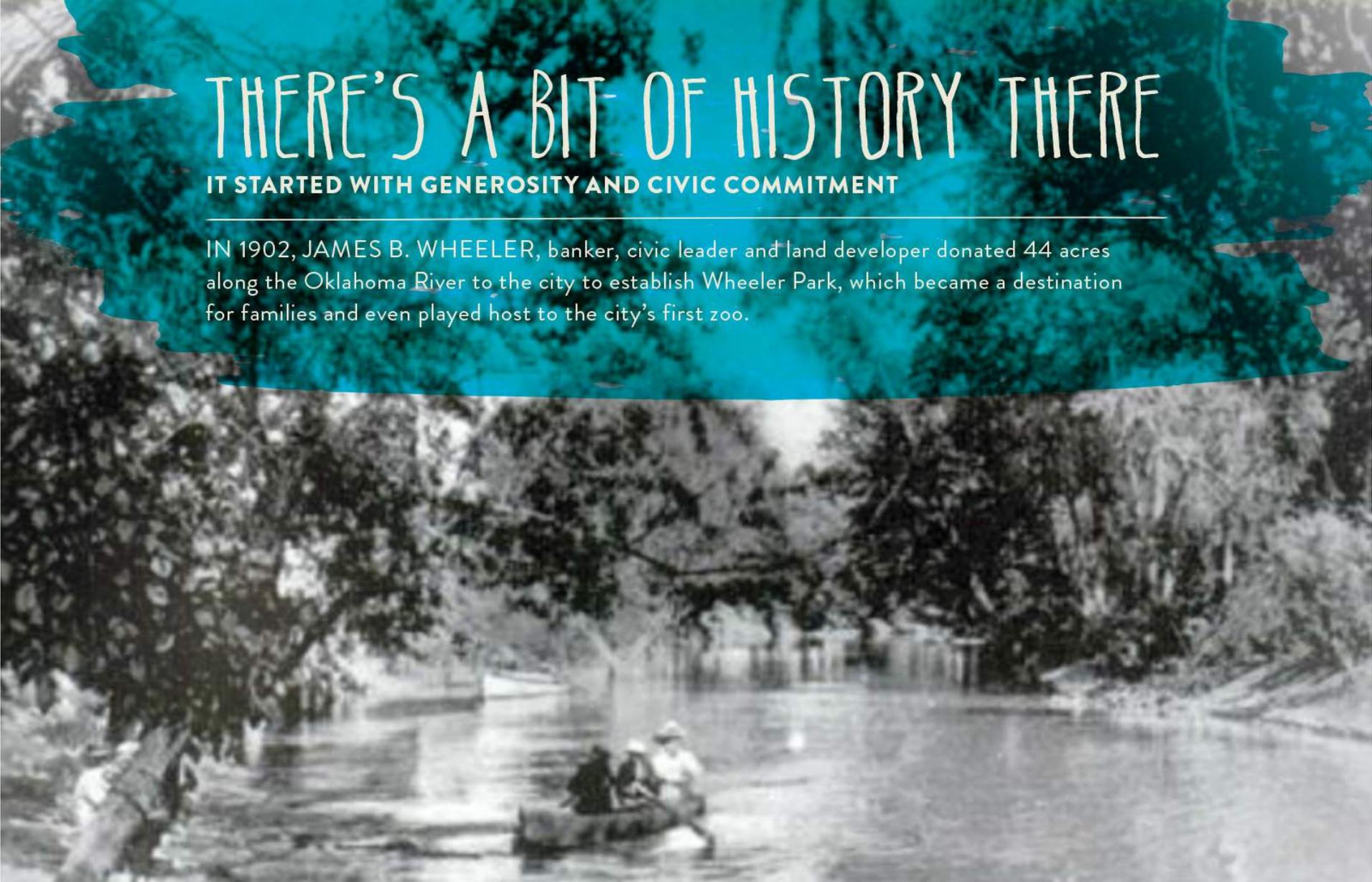
Process



THERE'S A BIT OF HISTORY THERE

IT STARTED WITH GENEROSITY AND CIVIC COMMITMENT

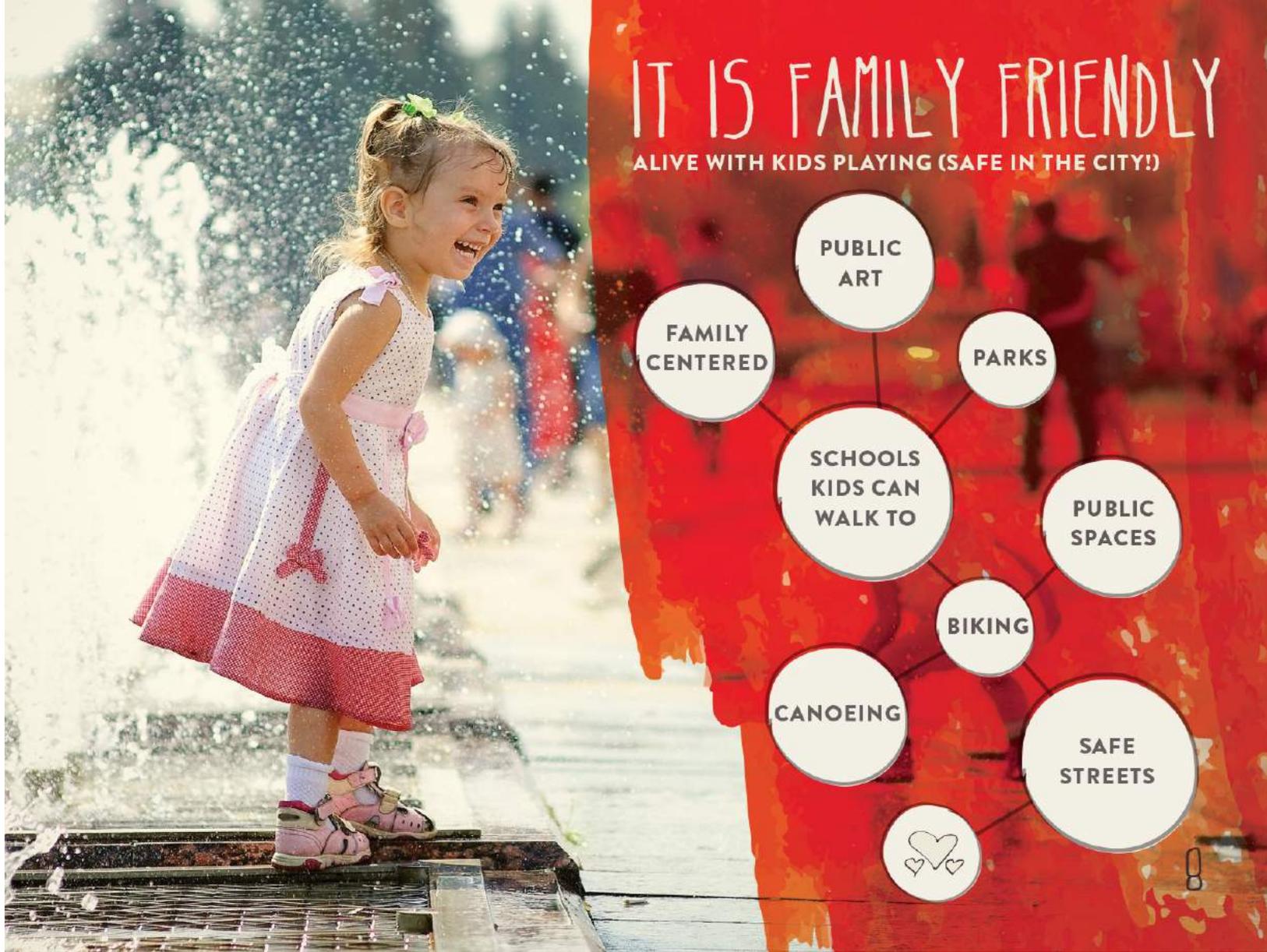
IN 1902, JAMES B. WHEELER, banker, civic leader and land developer donated 44 acres along the Oklahoma River to the city to establish Wheeler Park, which became a destination for families and even played host to the city's first zoo.













HELP US & SHARE YOUR VISION FOR A NEW URBAN VILLAGE

Imagine if you could create a place people love to live, with a mix of shops, open spaces, schools and housing. What would a place where community and connection thrives, look like to you? These are just a few of our ideas, tell us yours.

WALKABLE & BIKEABLE • LOCAL MAKERS • FESTIVALS & FOOD TRUCKS • A RANGE OF HOUSING



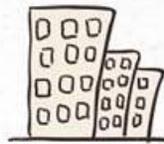
TODAY

HELP US AND
SHARE YOUR VISION



5 YEARS

A SMALL AND
GROWING VILLAGE



10 YEARS

A COMPLETE
NEIGHBORHOOD



50 YEARS

IT'S WHEELER,
A PLACE PEOPLE LOVE

Imagine a timeline that starts & grows with you and other local visionaries

WHEELER DISTRICT





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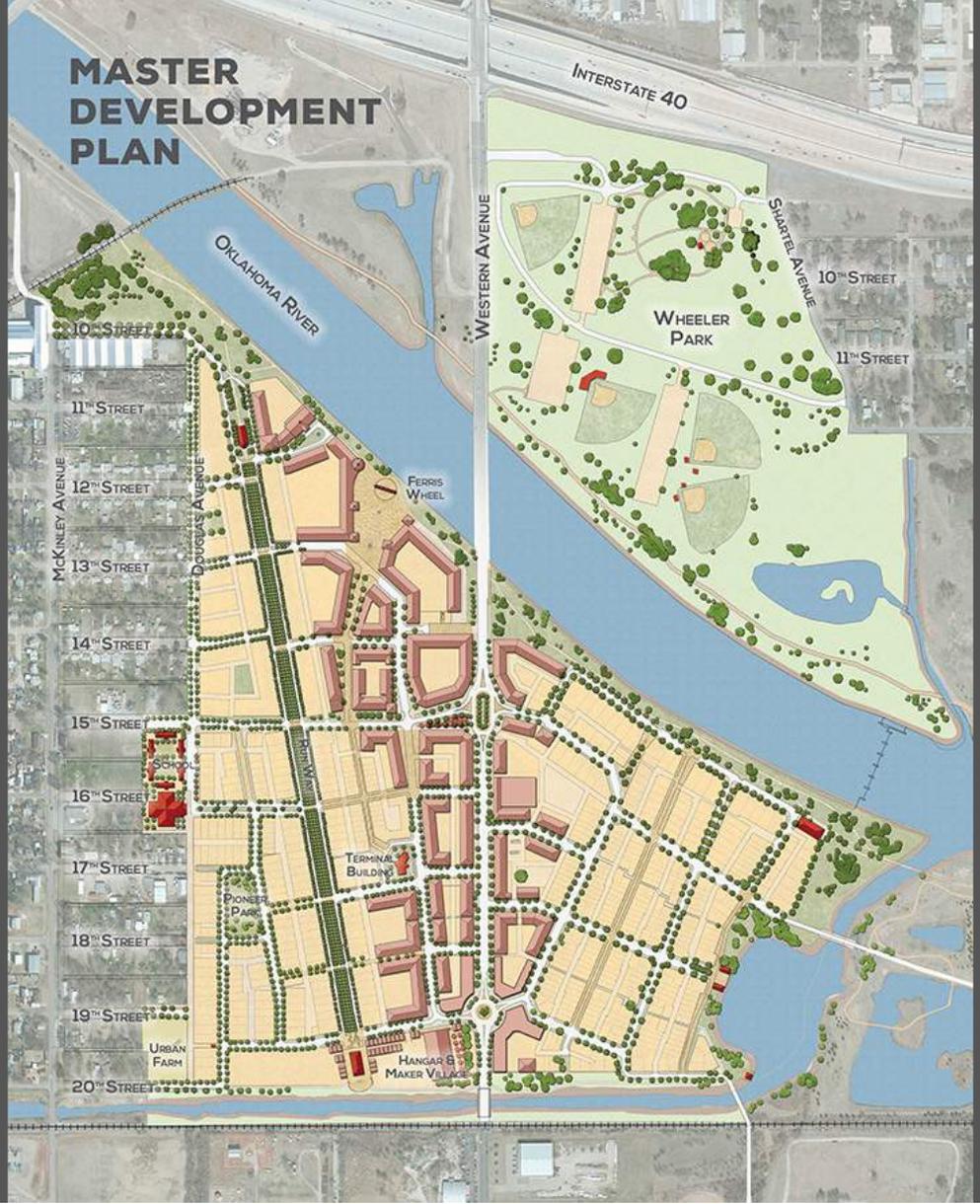






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MASTER DEVELOPMENT PLAN



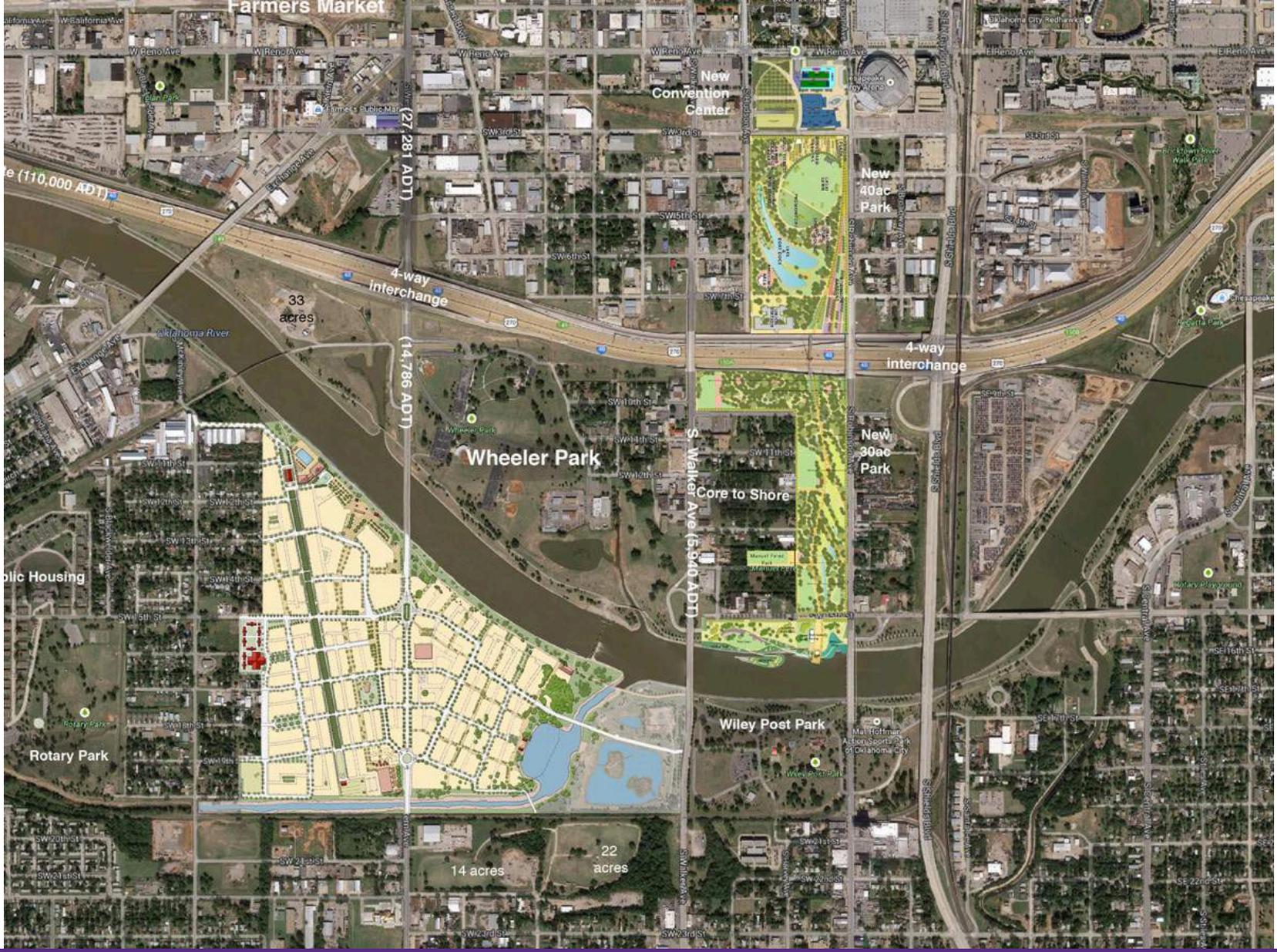














Placemaking



L.A. NOW

SOUTHERN CALIFORNIA -- THIS JUST IN

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Santa Monica Ferris wheel -- sold! *updated

APRIL 25, 2008 | 2:45 PM

Ten days, six bidders and 35 bids later, [the EBay auction](#) for the Ferris wheel on the [Santa Monica Pier](#) is over. Winning bid: \$132,400.

The bulk of the action started at 8:45 this morning, with the price jumping from \$83,000 to the final sale price in a...





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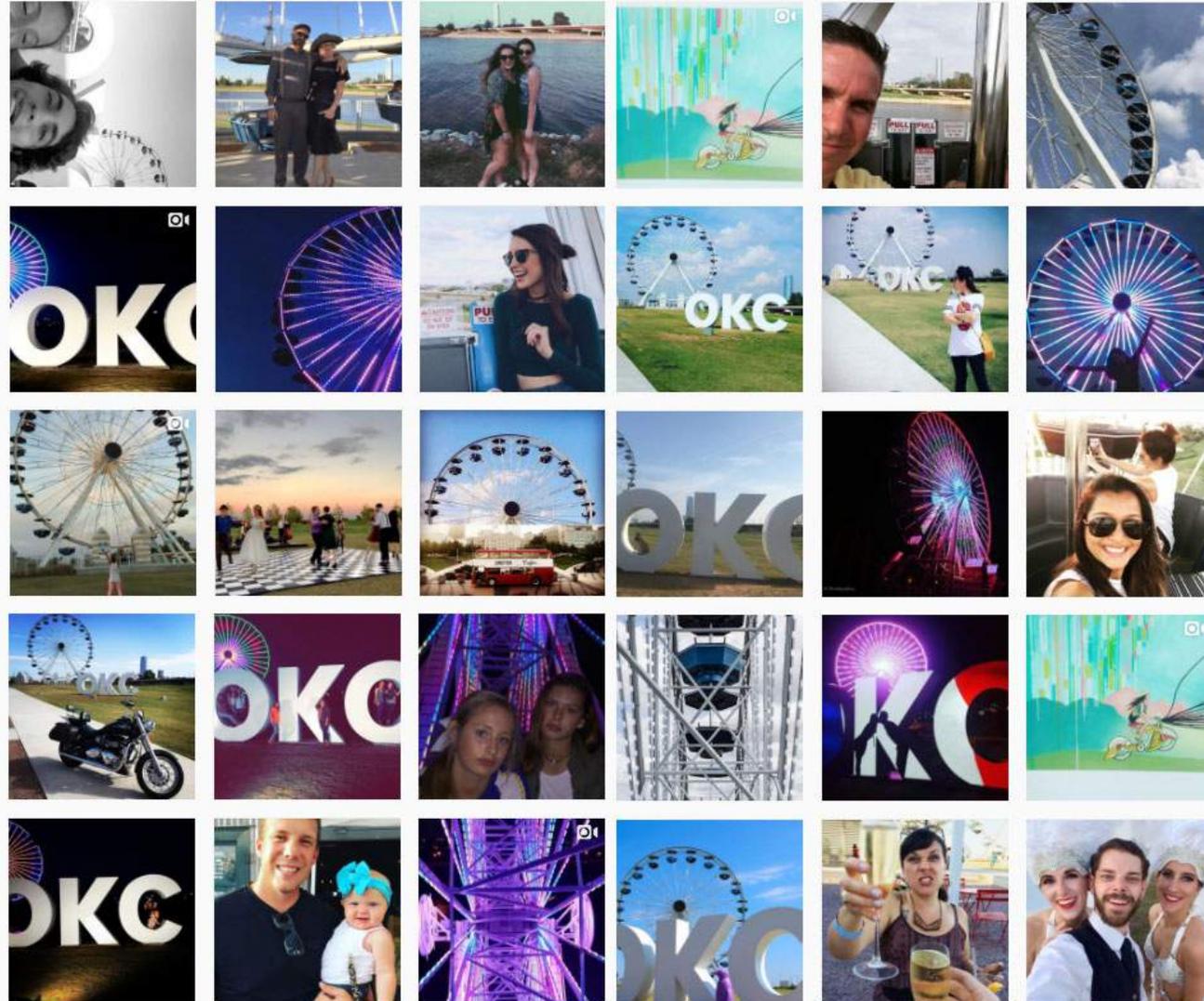


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Wheeler Ferris Wheel

TOP POSTS















Culture





WHEELER
CRITERIUM
2016

presented by
NOMINEE

MARCH 15TH - AUGUST 30TH
OKLAHOMA CITY, OK
WHEELERCRITERIUM.COM

WHEELER
CRITERIUM
2017

MARCH 21ST THROUGH AUGUST 29TH
EVERY TUESDAY AT 5:30PM | WHEELER DISTRICT
WHEELERDISTRICT.COM

405 Bicycles
Celestial CYCLES
Fowler
TOYOTA
ELEMENTAL
ANHEM
MIDTOWN OPTICAL
SCHLEGEL
WHEELER
ORA RACING
CHARLEY'S

2018 WHEELER
CRITERIUM

MARCH 20TH - AUGUST 28TH RACES START AT 5:30 PM IN
THE WHEELER DISTRICT

AK BIKES
Celestial Cycles
ELEMENTAL
ORA RACING
SCHLEGEL
BIKE LAB
MIDTOWN OPTICAL







Phase One



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WHEELER DISTRICT
PHASE ONE

INTERSTATE 40

OKLAHOMA RIVER

WHEELER PARK

WESTERN AVENUE

SHURTEL AVENUE

10TH STREET

11TH STREET

10TH STREET

11TH STREET

12TH STREET

13TH STREET

14TH STREET

15TH STREET

16TH STREET

17TH STREET

18TH STREET

19TH STREET

20TH STREET

McKINLEY AVENUE

DOUGLAS AVENUE

FERRIS WHEEL

PHASE ONE

TERMINAL BUILDING

PIONEER PARK

FUTURE EXPANSION AREA

HANGAR & MAKER VILLAGE

URBAN FARM













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