In Practice

North Dakota Funds Affordable Rental Housing during the Oil Boom



State financing programs helped fund Patterson Heights Apartments, 24 residences for low- and middle-income residents and essential services personnel in oil-rich Stark County, North Dakota. *Image courtesy of Lisa Roers.*

Over the past six years, North Dakota has become the largest oil producer in the U.S. after Texas. Since 2008, the state has had the lowest

unemployment rate in the country, with 3.2 percent in 2012. (See HUD's *U.S. Housing Market Conditions* for the fourth quarter of 2012 and the quarterly housing update webcast for additional data on jobs, housing construction, and housing prices.) Rents have tripled in 18 counties in western North Dakota, where the resurgence of the oil and gas industry has created a critical housing shortage, according to Jolene Kline, director of the Planning and Housing Development Division of the North Dakota Housing Finance Agency (NDHFA). Job seekers from out of state often refuse jobs in North Dakota or are forced to leave their families back home because of the lack of affordable housing. City, county, and state employees – as well as private-sector workers – have had difficulty finding housing they can afford. The housing authority in oil-rich Stark County reported that 287 out of 312 households awarded housing choice vouchers were unable to find a rental unit from 2010 to 2012.

To address this shortage, the state recently established the Law Enforcement Pilot Program (LEPP), which creates affordable rental housing for law enforcement personnel, and the Housing Incentive Fund (HIF) for affordable multifamily housing. Funds from the LEPP and HIF initiatives were used to finance Patterson Heights Apartments, a 24-unit rental development in Stark County. The developer, Beyond Shelter, Inc. (BSI), expects the apartments to be fully leased within six weeks of the project's April 1 opening.

North Dakota Responds to the Housing Need

In 2012, the state created LEPP, a pilot program to provide housing for law enforcement personnel. LEPP's funding of nearly $3 million came from the Mortgage Servicing Settlement Fund, set up by 5 national mortgage lenders for 49 states and the federal government in compensation for illegal foreclosure practices. LEPP funds can be used in the western counties affected by the oil boom. As of October 2012, LEPP has paid for 34 units in 9 communities.

NDHFA, a public financial institution whose mission is to make housing affordable for all North Dakota residents, manages both LEPP and HIF. HIF, which the state's Legislative Assembly authorized in 2011 at $15 million, is a tax credit program funded through state income taxes. Individuals, businesses, and financial institutions may contribute money to the fund and in return receive a dollar-for-dollar credit on their tax liability distributed over five years. HIF assists with the development of affordable housing for low-income households (half of the funds must go to households with incomes up to 50% of the area median income) and rural areas (25% of the funds must be used in communities of 10,000 or fewer people). HIF funds went to 26 different housing projects, and all but 4 of them were in oil country.

In addition, the Bank of North Dakota, the nation's only state-owned bank, created the Flex PACE Affordable Housing program to help nonprofits build affordable housing in the 18 oil-affected counties. Funds from the program are used to buy down interest rates on permanent loans either to one percent or to five percent below the yield rate, whichever is lower. Communities where projects are located must also contribute funds toward the interest rate buydown.

Patterson Heights Apartments

To help address the demand for affordable housing, BSI developed Patterson Heights Apartments in the town of Dickinson. The three-story structure features one-, two-, and three-bedroom units with ENERGY STAR® appliances, in-unit washers and dryers, patios, and optional garage rentals. Nearby amenities for residents include public schools, Dickinson State University, a municipal recreation center, and the site of a proposed hospital. In an area where a 2-bedroom unit can rent for up to $2,500 a month, the Patterson Heights units will rent from $575 to $1,063 per month, according to Jolene Kline, director of the Planning and Housing Development Division of NDHFA. The development has six 1-bedroom units with 778 square feet, twelve 2-bedroom units with 1,065 square feet, and six 3-bedroom units with 1,179 square feet. Eight units are designated for law enforcement personnel and require no income qualification. Income limits for the other 16 units are described in the accompanying table.

Patterson Heights Units with Income Requirements

Number of Units	Area Median Income
5	30% or less
5	50% or less
3	80% or less
3	140% or less

Financial Collaboration

The development of Patterson Heights Apartments entailed collaboration among more

than 12 entities, including Marathon Oil, which designated a portion of its $2.5 million HIF contribution toward this development. This $3.44 million development received $1,376,000 from HIF and $744,000 from LEPP; the governor's discretionary Community Development Block Grant program contributed an additional $179,000. American Bank Center provided an $827,000 mortgage at 5 percent interest, which will be effectively reduced to 1 percent in July 2013; at that time the Bank of North Dakota and the Stark Development Corporation will contribute more than $460,000 under the Flex PACE Affordable Housing program for buydowns of loan interest rates in areas affected by oil and gas development. In accordance with its nonprofit mission of "improving lives and creating communities by developing housing for those most in need," BSI has deferred $314,000 in developer fees until the project's cash flow permits payment.

At the groundbreaking ceremony for Patterson Heights Apartments, Governor Jack Dalrymple said, "We are committed to bringing more affordable housing to western North Dakota, and this project is another great example of the public-private partnerships that are making that happen." The North Dakota Legislative Assembly is currently contemplating an extension of HIF and LEPP as the state's booming oil industry continues to engender housing shortages for low-income households and essential services personnel. The housing needs assessment also mentions the need for housing assistance for residents aged 65 and older, whose share of the state's population is projected to increase by 52 percent between 2010 and 2025. BSI is addressing that need, too, using low-income housing tax credits to construct Heritage Hills, an affordable senior housing project with tenant services, next to Patterson Heights Apartments.

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