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A MARKET STUDY OF:

APARTMENTS AT RED CLOUD

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1319 Saint Andrew Street
La Crosse, La Crosse County, Wisconsin 54603

Effective Date: May 24, 2018
Report Date: June 13, 2018

Prepared For:

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Prepared By:

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Diana Dyste
Project Manager
CommonBond Communities
1080 Montreal Avenue
St. Paul, MN 55116

Re: Market Study of Apartments at Red Cloud
1319 Saint Andrew Street
La Crosse, La Crosse County, Wisconsin

Dear Ms. Dyste:

At your request, Novogradac & Company LLP has performed a study of the multifamily rental market in the La Crosse, La Crosse County, Wisconsin area.

The purpose of this market study is to assess the viability of Apartments at Red Cloud, a proposed new construction Low Income Housing Tax Credit (LIHTC)/affordable three-story development. The Subject will consist of 50 one, two, and three-bedroom mixed-income units contained in a three-story elevator-served midrise building. Of the Subject's 50 units, 42 will be LIHTC restricted at the 30, 50, and 60 percent AMI levels. The remaining eight units will be affordable with rents set below market rate (60 to 80 percent of the AMI). Further, 10 one-bedroom units will be supportive housing and will be targeted towards persons with disabilities and formerly homeless individuals with preference towards veterans earning 30 percent of the AMI or less. These units are expected to receive project-based subsidies. As such, tenants will pay just 30 percent of their income as rent. The following report provides support for the findings of the study and outlines the sources of information and the methodologies used to arrive at these conclusions. The scope of this report includes the following:

- Inspecting the site of the Subject and the general location
- Project Description
- Market Area Analysis
- Supply Analysis
- Demand Analysis
- Absorption Analysis
- Conclusions and Recommendations

The depth of discussion contained in the report is specific to the needs of the client specifically the requirements of Federal Home Loan Bank (FHLB) of Chicago Affordable Housing Program (AHP) and Wisconsin Housing and Economic Development Authority (WHEDA) market study guidelines, per the agreed upon scope of work. Novogradac & Company LLP adheres to market study guidelines promulgated by the National Council Housing Market Analysts (NCHMA). This report deviates from NCHMA market study guidelines in areas specified in FHLB AHP and WHEDA market study requirements, and therefore is not in compliance with NCHMA market study guidelines. The report and the conclusions are subject to the *Assumptions and Limiting Conditions* attached. CommonBond Communities is the client in this engagement. We understand that they will use this document for internal investment discussions and to assist in obtaining AHP funds. Intended users are those transaction participants who are interested parties and have knowledge of the Section 42 LIHTC Program. Program. These could include local housing authorities, state allocating agencies, state

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lending authorities, LIHTC construction and permanent lenders, and LIHTC syndicators. As our client, Commonbond Communities owns this report and permission must be granted from them before another third party can use this document. We assume that by reading this report another third party has accepted the terms of the original engagement letter including scope of work and limitations of liability. We are prepared to modify this document to meet any specific needs of the potential users under a separate agreement. Please do not hesitate to contact us if there are any questions regarding the report or if Novogradac & Company LLP can be of further assistance. It has been our pleasure to assist you with this project.

We certify that there is not identity of interest between the analysis and the entity for whom the report is prepared including the sponsor, developer, or owner of the proposed development, as defined below. "An identity of interest relationship exists if any officer, director, board member, or authorized agent of any development or any development team member (consultant, general contractor, attorney, management agent, seller of the land, etc.): is also an officer, director, board member or authorized agent of any other development team member; has any financial interest in any other development team member's firm or corporation; is a business partner of an officer, director, board member or authorized agent of any other development team member; has a family relationship through blood, marriage or adoption with an officer, director, board member, or authorized agent of any other development team member; or advances any funds or items of value to the sponsor/borrower."

William Zimmermann conducted an inspection of the Subject site and the comparables on May 24, 2018.

Recommendations and conclusions are based solely on professional opinion and best efforts.

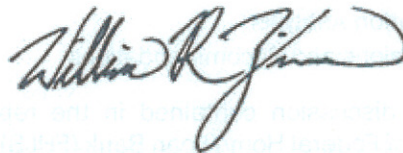
Respectfully submitted,
Novogradac & Company LLP



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William Zimmermann
Analyst

EXECUTIVE SUMMARY

- Apartments at Red Cloud (Subject) is a proposed new construction 50-unit LIHTC/affordable development. Of the Subject's 50 units, 42 will be LIHTC restricted at the 30, 50, and 60 percent AMI levels. The Subject's remaining eight units will be considered affordable as rents will be set below the achievable market rate (60 to 80 percent of the AMI) and income limits will be set at less than 80 percent of the AMI per the FHLB. Further, 10 one-bedroom units will be supportive housing and will be targeted towards persons with disabilities and formerly homeless individuals with preference towards veterans earning 30 percent of the AMI or less. These units are expected to benefit from project-based rental assistance. As such, tenants will pay just 30 percent of their income as rent. The Subject site is located at 1319 Saint Andrew Street, La Crosse, La Crosse County, Wisconsin. The Subject will consist of one, two, and three-bedroom units.
- The Subject site is located in a mixed-use area. Prior to replatting, the Subject is part of a larger parcel which will consist of a combination of a senior independent living facility to the west and a veterans health facility to the south of the Subject. Land use to the north of the overall parcel consists of Mullen Homes, a public housing development in average condition, as well as a Head Start Program Center in average condition. Mullen Homes has not been utilized as a comparable due to its subsidized rent structure. Further north are single-family homes in average condition and a rail yard. Land use to the east of the overall parcel consists of industrial uses in average to good condition. Further east are single-family homes in average to good condition. Land use to the south of the overall parcel are commercial uses in fair to average condition. Land use to the west of the overall parcel is an O'Reilly Auto Parts, followed by single-family homes, across Lang Drive, in average to good condition. The overall site fulfills the requirement required by the Federal Home Loan Bank (FHLB) requiring the site to meet the bank's definition of an infill lot. An infill lot is defined as any vacant, unimproved lot which is bounded on three side by lots with existing uses in an established neighborhood and which generally requires minimal infrastructure.
- Upon completion, the Subject will offer an excellent quality product with competitive in-unit amenities and unit sizes. Strengths of the Subject will include its excellent condition and midrise-style design. Further, it is expected that 10 one-bedroom units will benefit from rental assistance, as they will target individuals and families with a disability and who are experiencing homelessness. Weaknesses of the Subject will include its small unit sizes. However, the LIHTC comparables reported low vacancy and two of the three comparables reported rents at the maximum allowable level suggesting demand for affordable housing in the area. Further, the Subject will represent a superior product to most of the market rate and submarket rate developments in the immediate area, which are in generally inferior condition compared to the Subject. As such, we do not believe the Subject's small unit sizes will affect the performance of the Subject upon completion.
- Vacancy rates at comparable properties range from zero to 3.5 percent, with an overall vacancy rate of 1.1 percent. Vacancy rates among the affordable comparables range from zero to 3.5 percent, with an overall vacancy rate of 2.4 percent. It should be noted that one of the comparables reported no vacancies, including the one purely affordable comparable within the PMA. Both of the LIHTC comparables, which reported vacancies, are both mixed-income and offer a combination of LIHTC and market rate units. Vacancy rates among the market rate and submarket rate properties range from zero to 1.3 percent, with an average overall vacancy of 0.4 percent. Overall, the market is considered stable and vacancy rates are low. Taking all of this data into account, we expect the Subject will be able to maintain a vacancy rate of five percent or less upon completion.
- Based upon our analysis of the market, and particularly with respect to the most comparable properties, we believe that the proposed affordable rents for the Subject's units are reasonable and achievable.

- Population and household growth in the PMA and MSA increased slightly between 2000 and 2017. Population and households are projected to continue to increase from 2017 through 2022 in both the PMA and MSA. The increasing population and number of households is a positive indicator for all types of housing. Approximately 59.8 percent of renter households have annual incomes of less than \$40,000, demonstrating a need for affordable housing options in the area.
- The demand analysis illustrates demand for the Subject based on capture rates of income-eligible renter households. The following table details the capture rate by income level, the overall capture rate for all units, the annual demand, and penetration rate.

DEMAND CONCLUSION

Calculation	As Proposed	Absent Subsidy
@30%	0.5%	1.2%
@50%	0.4%	0.4%
@60%	0.6%	0.6%
Sub Market	0.1%	0.1%
All Units	0.4%	0.5%
Annual Demand	1.0%	1.2%
Overall Demand	0.4%	0.4%
Penetration Rate	6.2%	4.1%

The determined capture rates and annual demand are considered good to excellent, and the penetration rates are also low and very reasonable. Given our demand projections, as well as the occupancy and wait lists of existing LIHTC developments in the PMA, we believe the Subject’s units will be well accepted. Overall, we believe there is more than adequate demand for the Subject as proposed.

- Based on the capture and penetration rate indicated by the *Demand Analysis*, our interviews with local officials, and current vacancy in the market, we believe the Subject will be absorbed within six months of completion, with or without subsidies, assuming the property is properly marketed prior to completion. This absorption estimate equates to an initial leasing pace of approximately eight units per month.
- Upon completion, the Subject will offer an excellent product, with competitive design, amenities, and location. The strengths of the Subject will be its excellent condition and midrise elevator-serviced design. Weaknesses of the Subject include its inferior unit sizes which provide a seven to 25 percent disadvantage to the surveyed average of the comparables. There are two newly constructed LIHTC developments within La Crosse County. We were unable to contact one 2219 Lofts; however, the other, Roosevelt School Apartments, reported 100 percent occupancy indicating a need for affordable housing in the immediate area. Further, the majority of submarket and market rate developments in the PMA are older and in inferior condition when compared to the Subject. Vacancy rates at comparable properties range from zero to 3.5 percent, with an overall vacancy rate of 1.1 percent. Vacancy rates among the affordable comparables range from zero to 3.5 percent, with an overall vacancy rate of 2.4 percent. However, it should be noted that two of the LIHTC comparables also offer market rate units. It should be noted that four of the comparables reported no vacancies, including one affordable comparable. Further, the LIHTC comparables noted that they do not maintain a waiting list; however, potential applicants are often referred onto other LIHTC properties in the area if there is no immediate availability. Overall, the market is considered stable. Taking all of this data into account, we expect the Subject will be able to maintain a vacancy rate of five percent or less upon completion.
- Based upon our analysis of the market, and particularly with respect to the most comparable properties, we believe that the proposed affordable rents for the Subject’s units are achievable at the 2018 maximum

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allowable level and are market oriented. Further, the proposed rents provide a slight rent advantage relative to market rents in the PMA.

- We have estimated the Subject’s achievable submarket rents within to slightly below the range of rents at the two most similar properties, which range from \$861 to \$1,011 for a one-bedroom units and \$1,013 to \$1,313 for a two-bedroom unit. However, due to the lack of three-bedroom units offered in the market, we have set the Subject’s achievable three-bedroom submarket rents similar to the overall surveyed average of the comparables, which is \$1,508. As such, we have concluded achievable submarket rents of \$850, \$1,200, and \$1,500 for the Subject’s one, two, and three-bedroom units, respectively.

SUBJECT COMPARISON TO MARKET RENTS

Unit Type	Subject	Surveyed Min	Surveyed Max	Surveyed Average	Achievable Submarket Rents	Subject Rent Advantage
1BR - 30% AMI	\$349	\$561	\$1,132	\$873	\$850	59%
1BR - 50% AMI	\$621	\$561	\$1,132	\$873	\$850	27%
2BR - 50% AMI	\$744	\$738	\$1,404	\$1,100	\$1,200	38%
3BR - 50% AMI	\$858	\$1,315	\$1,781	\$1,508	\$1,500	43%
2BR - 60% AMI	\$858	\$738	\$1,404	\$1,100	\$1,200	29%
1BR - Sub Market	\$812	\$561	\$1,132	\$873	\$850	4%
2BR - Sub Market	\$1,187	\$738	\$1,404	\$1,100	\$1,200	1%
3BR - Sub Market	\$1,437	\$1,315	\$1,781	\$1,508	\$1,500	4%

*Market rate is defined by WHEDA as more than 60% of the AMI. Submarket rate rents within this development are identified as between 60 to 80 percent AMI or less.