Prioritizing Housing Affordability at all levels is Critically Important in Recovering from a Disruptive Economy

Over 100 people tuned into ULI MN’s Housing Webinar featuring Adam Ducker with RCLCO and a panel of ULI MN real estate professionals. Adam focused on the recent research completed in partnership with the ULI Terwilliger Center for Housing: Attainable Housing Challenges, Perspectives and Solutions and Family Renter Housing: A Response to the Changing Growth Dynamics of the Next Decade.

Keynote Speaker:
Adam Ducker, RCLCO Real Estate Advisors
Senior Managing Director,
Director of Urban Real Estate & Public Strategies

Mr. Ducker’s presentation focused on the mismatch between the demand for middle income for sale and rental housing, which he refers to as “Attainable Housing” and supply of product built at an affordable level.

He outlined best practices on the importance of making the business case for private investment in Attainable Housing and profiled several national and local case studies.

Key talking points included the following:

- Housing prices are rising faster than middle incomes.

- New housing construction is not keeping up with household growth as the percentage of homes built under $300,000 are much less today than 10-15 years ago.

- The private sector is building more expensive housing while public funding targets lower incomes leaving a gap in the supply of middle-income housing.

- Building a new home under $250,000 in the Minneapolis-St. Paul region is exceedingly difficult without concessions such as modified land use regulations,
Between now and 2035, millennial households will be the largest segment of the population looking to purchase a home. However, the industry is not building the product that they desire or that they can afford; a home in a good location, at a price point below $300,000.

Supporting the construction of “value housing,” housing with less customization, fewer high cost fixtures, and slab on grade or unfinished basements, creates savings of about 2-4 percent of the total development costs. However, current customer preferences would rather trade a smaller lot and smaller home over lower quality finishes and less customization in design features. One consistent desired preference is the high consumer demand for housing located in a desirable location.

There is a growing demand and desire for single family (attached and detached) rental housing across the country. Supporting the development of rental single-family housing will fill a need created by millennial households who choose to rent and younger families who cannot afford to buy but desire living in a single-family home.

Panel Discussion:
Local Perspectives; Building Missing Housing for Middle Incomes
The presentation was followed by a panel discussion with Sean Sweeney, Alex Frank, and Heather Worthington who are part of a ULI MN work group created to identify the barriers and solutions across design, construction, financing and regulations to spur private investment and public support for missing housing for middle incomes.

Summary of Panelist Remarks:

- **Housing is critical infrastructure.** Housing is an interconnected component of a city's overall public health along with public safety, jobs, transportation, and access to basic social services (education, daycare, and healthcare). Housing stability lifts all other components up and impacts people's ability to retain a job, maintain children's access to education and secure a healthy life.

- **Higher development risks** are evident when building smaller projects (under 40 units); creating a disincentive to target moderate incomes under 80% of the area median income. This is due to lower profit margins and less room for cost modifications and contingencies.

- **Limited developers, designers, and property managers are in the field who focus on this industry.** Current projects being built focus on boutique building types that target higher incomes rather than more affordable, middle income options.

- **Disconnect between city goals and the process.** Alignment of the system (from policy to practice) is required to reduce the time and cost needed to build projects that are affordable to middle income without subsidy. If a project is approved that aligns with city goals to provide nonsubsidized middle income housing but the regulations are not in place, the required modifications to construct the physical structure becomes too expensive.

- **The shift begins in the field.** After a project is approved, inspectors in the field often require additional provisions which adds to the overall construction costs. These added costs limit the ability to deliver innovation to meet and achieve city goals.
What needs to change?

- **Policy Aligned with Practice.** City and state building codes need to be aligned so that the dots between policy and practice are connected; i.e. alignment between zoning and building codes to allow innovation to be successful.
- **The layers of government and regulation need to be broken down to create alignment.** Discussion and agreement across all sectors need to be rooted in prioritization rather than focusing on the scarcity of resources to support innovation.
- **Clear communication** among the spectrum of stakeholders is required to understand and agree on the goals of a project prior to development approvals.
- **Clarity in leadership** across all silos is necessary to ensure that mutual goals can be achieved throughout the process from approvals to construction.
- **We must match spending with the priorities.** The state and region must get behind shared values and prioritize the investments needed to achieve those shared goals putting housing options and opportunities as key component of the overall community public health.

The report on ULI MN’s work group related to Missing Housing for Middle Incomes is expected to be released later this year.

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All inquiries will remain confidential.

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