Missing Housing for Middle Incomes:

Strategies to Reduce Cost and Add Affordability

A ULI Minnesota Housing Report, 2020–2021

ULI Minnesota

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About the Urban Land Institute

The Urban Land Institute (ULI) was established in 1936 as a nonprofit educational and research institute and has grown more than 45,000 members in 82 countries representing every profession and sector in real estate development and land use from all over the world and in every career stage. While global in scope, we are local in impact through sharing knowledge and making connections.

The mission of the Urban Land Institute is to shape the future of the built environment for transformative impact in communities worldwide. To accomplish this work, ULI advances the following mission commitments:

- CONNECT active, passionate, diverse members through the foremost global network of interdisciplinary professionals.
- INSPIRE best practices for equitable and sustainable land use through content, education, convening, mentoring, and knowledge sharing.
- LEAD in solving community and real estate challenges through applied collective global experience and philanthropic engagement.

The Urban Land Institute stands at the forefront of the land use and real estate industry, a steadfast leader in the best practices for a changing world. For over seven decades, ULI has been a unique and trusted forum where members come together to share and exchange ideas, information and experiences – to shape tomorrow's horizon and improve the way communities grow.

About ULI Minnesota

ULI Minnesota was founded in 2001 to serve the Minneapolis-Saint Paul region and the state of Minnesota. Our members are involved in all aspects of the development and city planning process – private, public, and non-profit. Membership in ULI Minnesota includes the research and resources of the oldest and largest network of cross-disciplinary real estate and land use experts in the world.

We are led by our local membership and work to engage public and private sector leaders to foster collaboration, share knowledge, and influence meaningful strategic action in the responsible use of land to create and sustain thriving communities. The mission of ULI Minnesota is made possible by the generous contributions of time and talent made daily by our membership.

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National and Global Advisory Services

Since 1947, the ULI Advisory Services program has assembled well over 700 ULI-member teams to help sponsors find creative, practical solutions for complex land use challenges. A wide variety of public, private, and nonprofit organizations have contracted for ULI's advisory services. National and international panelists are specifically recruited to form a panel of independent and objective volunteer ULI member experts with the skills needed to address the identified land use challenge. The program is designed to help break through obstacles, jump-start conversations, and solve tough challenges that need an outside, independent perspective. Learn more at americas.uli.org/programs/advisory-services/.

District Council Advisory Services

ULI Minnesota has a long history of providing unbiased, market-based solutions and best practice advice on land use and building resilient and competitive communities. Never before has it been more critical for decision makers to understand the range of factors influencing their City's economic future, from the COVID-19 precautions, long-term need for economic recovery, and the growing call to address entrenched inequalities. At ULI Minnesota, we offer two advisory service options to policy leaders, along with best practice resources.

- **Navigating Your Competitive Future ("NCF")** – NCF is an interactive 2 hour workshop with policy leaders and volunteer real estate professionals to focus on the current challenges of development and redevelopment. NCF is designed to foster a meaningful dialogue across the public and private sectors to strengthen a mutual understanding of today's economic reality, market preferences and demographic shifts. Public officials will better understand the importance of effective partnerships and learn strategies to position your community to be competitive and resilient, and to attract the best quality development particularly in these uncertain and evolving economic times.
- **Technical Assistance Panels (TAPs)** – TAPs address specific development challenges such as site redevelopment options, downtown revitalization and environmental considerations. The goal is to generate ideas for realizing local, regional and statewide aspirations. Panelists evaluate data, site conditions and future redevelopment readiness and provide specific recommendations to guide future land uses for each site, as well as future partnerships in the real estate industry. TAPs are convened by ULI Minnesota at the request of cities, counties or other public agencies and range from half-day to three-day sessions.

Navigating Your Competitive Future
PRESENTED BY ULI MINNESOTA

TAP
Technical Assistance Panel
PRESENTED BY ULI MINNESOTA

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JACK EICKHOF, ONESHOT MEDIA

Community room at 4561 Minnehaha, Minneapolis, MN.

EXECUTIVE SUMMARY

ULI's new mission commitment to connect, inspire, and lead is the foundation of the work to understand the real estate and community challenges of developing housing for middle incomes absent of public financial investments. ULI Minnesota is fortunate to have active, passionate and diverse members who care deeply about the future of the region, its built environment and providing a full range of housing choices that is essential to community economic prosperity.

In partnership with Prosperity's Front Door, ULI Minnesota engaged a panel of key member industry expertise in a year long process resulting in the Missing Housing for Middle Incomes report. The report outlines what is getting in the way of success and provides suggested recommendations to break down those barriers in the hopes of increasing production of housing that provide rents and values affordable to those with middle incomes who are a critical population of workers in our region. To deliver on the goal will require key partnerships among the public and private sector to understand the barriers and make modest but multiple changes to the way we develop housing across the state.

Understanding the barriers for being able to deliver this housing and what would need to change to encourage production at a greater scale was one of the key challenges the key industry panelists pondered. With a target of reaching households at 60–80 percent of the area median income, ultimately it came down to tradeoffs in achieving this level of moderate affordability with limited or no public finance investment. In addition, entrepreneurial developers who have built housing for middle incomes indicated that it was too difficult, and they would not venture into another like development unless they received public financial support as the stress and impact on the company was not worth the lower profit margins. The panel indicated that not one strategy alone will have impact but rather many of the recommended shifts and changes would be required to see cost savings necessary to develop limited affordability without some level of public concession on land use regulations or financing investment.

Statement regarding COVID Impact

The Missing Housing for Middle Income work was conducted prior to the coronavirus crisis in the United States. We do know that the cost of construction, land values and labor costs have impacted the feasibility and costs of housing developments. These impacts may slow the adoption of recommendations outlined in this report, but it can still be assumed that the fundamental issues remain and addressing the issues will help to open the feasibility of constructing missing housing for those with middle incomes, without the need for significant public financial investment.

In reviewing case studies, several barriers were identified by the panel members that hindered their ability to deliver housing affordable to middle incomes, including:

- **Cost of parking**; particularly the number of parking stalls required and lack of space for surface parking.
- **Cost of land**; particularly in desirable market locations.
- Ability to reduce design and construction costs is **impacted by local regulations** that tend to add to the overall costs of a project.
- **Higher cost impact of standard zoning restrictions on smaller, less dense developments**.

Based upon the panel's personal and profession experience, the report recommends several strategies both within the public sector and in shifting the way development of these projects is conducted by the private sector. In addition, scale across the system is important based upon the size of the developer, their ability to raise capital and their ability to institute economies of scale that impacts overall costs.

The high-level recommendations include:

- **Focusing on cost containment** by using alternate, lower cost systems without additional approvals, supporting lower cost heating and air condition systems where appropriate and scaling the mainstream use of modular and panelized construction.

Garages at 3731-3745 Technology Park, Rochester, MN.

- **Increasing access to social impact capital** and creative bank finance structures to provide the needed-up front and patient funding at a lower than required investment return cost.
- When there is a community goal to increase options for those with middle incomes it is imperative that **land use and building codes be simplified and modified to reduce costs**. This includes reducing parking requirements and allowing alternatives without significant costs, allowing development by right, applying flexible and consistent building codes including allowing less costly heating and cooling systems and adopting policies to reduce fees in exchange of developing housing that targets those with middle incomes.
- Gaining support for design optimization with turnkey, pre-approved designs particularly for new or project conversions under four units, maximizing efficiencies and economies of scale within the industry rather than project by project development and ensuring that there is aligned vision between the developer and architect with a goal of reducing costs.

Overall, if any or all the recommendations are in place, the impact of NIMBYism can still stall a project which will increase its overall cost. This creates tension between what a community's overall goals are related to the desires of a few neighbors. And while social media provides a new forum to engage more residents in a develop process, it can also create a platform of potential misinformation that may derail good projects for the wrong reasons. Therefore, providing a clear process for approvals, including gaining resident support prior to significant development investment, being prepared to respond to misinformation and being willing to compromise is critical. There remains the need to support local capacity building and technical assistance for city staff and policy leaders, a consistent challenge and ongoing need. In addition, finding ways to increase the capacity of entrepreneurial, diverse developers so they continue to work on innovative, less costly projects that meet the needs of those with middle incomes should be a goal for the real estate industry as whole in partnership with the public sector.

WHY FOCUS ON MISSING HOUSING FOR MIDDLE INCOMES?

Income and wealth inequality in the United States have been creeping up for decades. It can be measured by what is called the Gini Index which recorded its highest percentage increase at any point in the last 50 years.

Various factors have contributed to the rise in inequality of housing wealth. Millions of Americans lost their homes during and after the Great Recession in 2008, and since then, housing prices increased substantially as a lack of new product that people could afford was built. And those with middle incomes have felt the decline in housing wealth much more significantly than those with higher income. In the last 20 years, the top 20 percent of income earners have increased their income levels four times higher than middle income earners. Additionally, median rent has risen more than 13 percent, while median renter income has fallen 5 percent, has made it even more challenging to find housing for those in the workforce not only of lower incomes but also those with middle incomes who are part of an essential workforce.

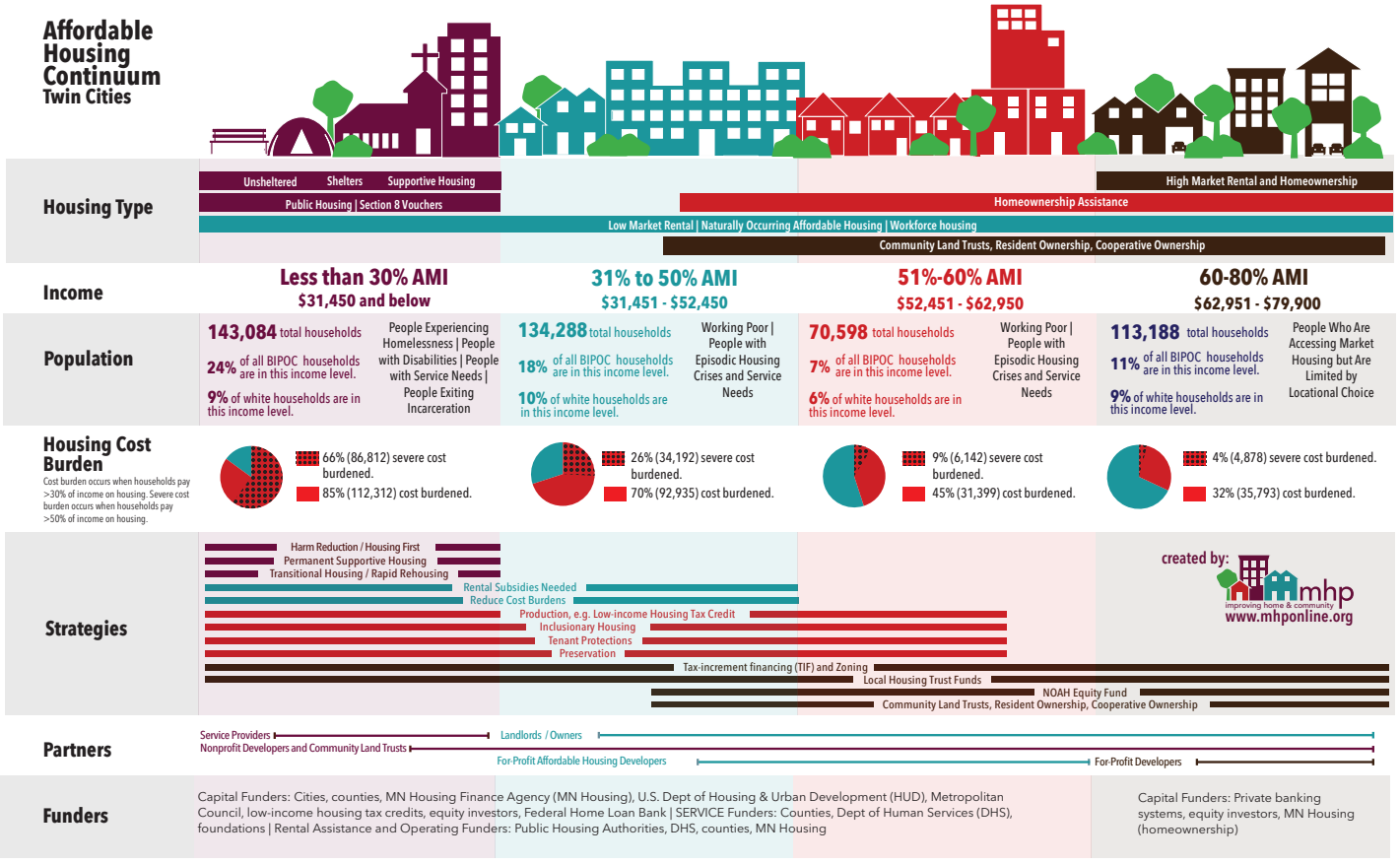
The result is first-time buyers who want to enter the market are priced out and even those middle-income Americans who own homes may find it challenging to transition homes. In addition, it is increasingly difficult for middle income earners to find apartments that are affordable. As noted above, rents have also skyrocketed much higher than income growth. This made it even more challenging as, since 2010, multifamily developers have put most of their time and energy into higher rent, luxury market rate housing.

One of the key driving forces behind this ULI Minnesota work was to identify ways to increase production of housing for those with middle incomes outside of utilizing traditional public sources of funding. As represented in the chart below, Federal Low Income Housing Tax Credit (LIHTC) program is designed to address the development needs for affordable housing for those with 60 percent of the AMI ("Area Median Income") or less. However, there is a large gap that also exists in available housing for middle income households who make between 60–80 percent of the AMI and do not qualify for affordable (LIHTC) housing or many other publicly subsidized programs. In many cases

What is the Gini Index?

Gini Index is a measure of the distribution of income across a population. A higher Gini Index indicates greater inequality, with high income individuals receiving much larger percentages of the total income of the population. A score of 0 on the Gini Index represents a population where income is perfectly evenly distributed, where a score of 1 represents a population where one household gets all the money. When the Census Bureau first started using the Gini Index in 1967, the US's score was 0.397. As of data collected for 2018, it is 0.485, representing a 20 percent increase, the highest it has been at any point in the last 50 years. This is despite (prior to the current COVID recession) the economy having enjoyed its longest ever economic expansion, with unemployment levels previously at a 50-year low.

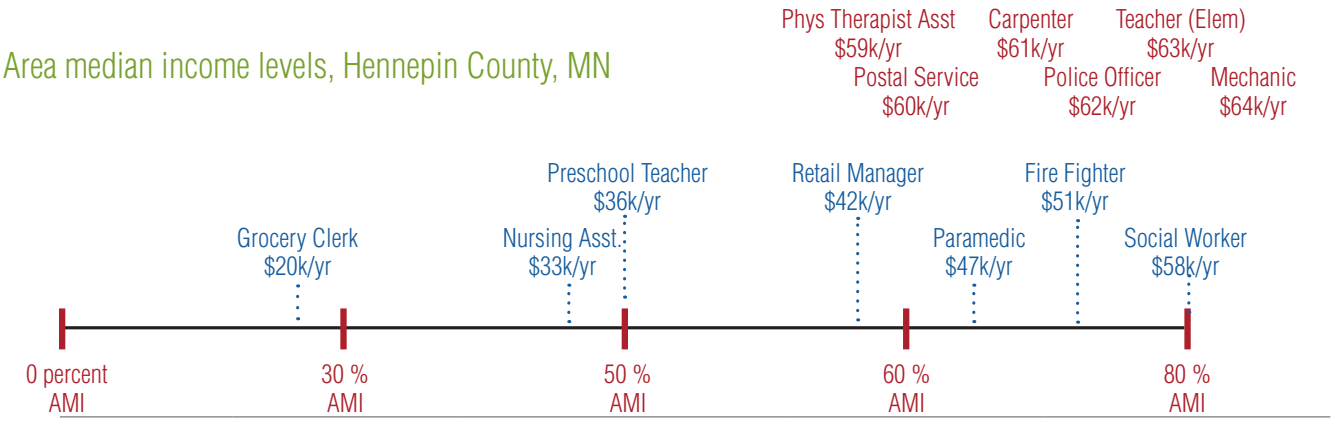
the rents that are available in new market rate projects would cause them to stretch well beyond the recommended 30 percent rent payment/gross income ratio, many who are already payment more than 40 percent of their income on housing now. In essence, they are left out of the limited public subsidy pool for projects that focus on affordability under 60 percent AMI and projects that the private sector can financially feasibly build without public financial investment.



Click to view full-size image

The chart below depicts area median income levels for various sizes of family units, earning up to 80 percent AMI, including average salaries for professions that fall in this range. The above is representative of AMIs and average salaries for Hennepin County, MN.

Area median income levels, Hennepin County, MN



	30 % AMI	50 % AMI	60 % AMI	80 % AMI
	$21,270	$36, 200	$43,440	$57,920
	$24,840	$41,400	$49,680	$66,240
	$27,930	$46,550	$55,860	$74,480
	$31,020	$51,700	$62,040	$82,720

Source: SalaryExpert.com, Salary.com for Minneapolis, MN for salaries; Novoco for AMI salaries.

THE PROCESS

As part of ULI Minnesota's Advisory Services Program, a multidisciplinary team of private and public sector real estate professionals convened to outline the barriers getting in the way of building unsubsidized affordable housing for households making 60–80 percent of the Area Median Income (AMI) range and identified strategies in construction and design necessary to reduce the overall costs. These strategies include a combination of design components, cost effective materials, low-cost land, clear and consistent local regulatory environment, as well as the importance of low-cost debt and equity.

Over the course of several months, the ULI Minnesota content experts brought together their knowledge and expertise to break down several project case studies without the typical affordable housing subsidy tools, such as LIHTC, Tax Increment Financing (TIF), housing bonds, etc. In some of the case studies gap financing was still required and in others the project needed to be modified to ensure that they were financially feasible. The case studies provide an understanding of the challenges, lessons learned and summary of project financing details.

The **goals of the process** were to:

- Create guidelines and solutions that can be applied across sectors.
- Evaluate case studies and identify 3-5 strategies/actions focused on construction and design that impacts the per unit cost to determine if there are ways to value engineer the development of housing affordable to those with middle incomes.
- Evaluate land use, finance, and legal/insurance practices that allow for cost reductions.
- Identify ways to eliminate and/or modify unnecessary regulation that may add to the cost of development without compromising safety.
- Summarize information so that case study fact sheets can be produced, outlining key learnings.

Project Size, a definition

Throughout the report, a reference to small, medium, and large projects are made. For purposes of this report, the definition for these references are:

Small	< 20 units
Medium	21-99 units
Large	100+ units

The **key findings and recommendations** are provided to:

- Inspire and encourage more cities to modify their land use codes and allow more flexibility as it relates to zoning codes, including design, material and parking requirements,
- Spur developers to build more housing for middle income households, and
- Activate change in real estate finance that will reduce uncertainty and risk and result in more mainstream financing of innovative missing middle housing products.

Balcony at 4561 Minnehaha Avenue, Minneapolis, MN.

IMPORTANCE OF HOUSING FOR MIDDLE INCOME HOUSEHOLDS

Reducing barriers and increasing opportunity for the development of housing affordable to all incomes is critically important to the region and State's overall economic, social and equitable health. Adequate and affordable housing is an interconnected component of a city and region's overall public health along with other critical infrastructure like public safety, transportation, and access to basic social services (education, daycare, and healthcare). Housing stability lifts all other components up and impacts people's ability to obtain and retain a job, maintain children's access to education and secure a healthy life.

The goals outlined in the Governor's Housing Task Force included building **300,000 new homes by 2030 across all housing types, prices, and locations. This work clearly identified that there is a significant housing shortage in the State.** The two most significant reasons for the current housing shortage are that housing prices and rents are rising faster than incomes and housing demand is exceeding supply. Housing shortages impact our region and states' ability to accommodate expected future job growth which will hinder our ability to remain economically competitive. As the cost to deliver new housing keeps rising, incomes have stayed relatively stagnant and in some industries are declining. More middle-income wage earners who are needed to fill growing sectors of the economy are being squeezed out of available housing options as they do not qualify for the subsidized "affordable housing" options but are also priced out of newly developed single family for sale product and market rate rental units.

Increasing access and opportunity in housing for people of color is an important strategy in reducing current racial disparities. As noted above, the housing market and housing prices are out of sync with the income of many residents and this imbalance is more prevalent for populations of color and in communities where they live. According to census data, 40 percent of households of color experience cost burden compared to 23 percent of white households. And while 77 percent of all white households own their home, 57 percent of Asian, 46 percent of Native American, 45 percent of Hispanic, and just 24 percent of Black households own their homes.

4561 Minnehaha Avenue, Minneapolis, MN.

Achieving the goals outlined in the Governor's Housing Task Force report will require collaboration among the public and private sectors, particularly government and non-profit and for-profit developers who invest to build housing. In addition, thinking outside the box, pushing the envelope on innovation and being flexible in design, construction and regulation will be key to moving the needle on achieving this state housing goal.

Why do we have a shortage of middle-income housing and what is the impact on the region and state's ability to be economically competitive?

Various studies and reports provide support for the need for more housing for workers with middle incomes, which make up a large portion of what we refer today as essential workers: those working in health sectors, education, human services and public services, supply chain, and other critical infrastructure. However, over the course of the last 10+ years, there has been a shortage of new housing supply to meet the housing needs of those who are employed in these lines of businesses, as more and more developers (single family residential and multifamily) have focused on higher income home buyers and renters. People employed in these lines of businesses want to live in the communities in which they serve, but this is only possible if the housing options available to them are affordable enough. And there are other impacts when people live farther away from where they work such as higher transportation costs, climate impacts, and ability to respond to key community health and safety services such as Fire and Police response times.

According to the ULI Attainable Housing Report, developers are building fewer of the smallest sized homes. Homes under 1,400 square feet have typically represented 16 percent of new construction in the U.S., but since 1999, they have only comprised 8 percent of new construction. During the same period, homes measuring 1,800 square feet or less made up just 22 percent of new construction, while they have traditionally been 40 percent of the market. During the last two decades, homes over 2,400 square feet, which in the past represented roughly a third of new homes, now comprise half of the market.

This trend of building larger homes, which in essence increases the overall cost, is exacerbated by the loss of existing smaller post-WWII era homes which are disappearing due to demolition and replacement by larger homes. Older home (those built in the 1940's and 1950's) have historically served as a market entry for middle income families. As indicated in many national

Home Sizes are Increasing over Time

SF	Pre-1999	Post-1999
</ = 1,400	16%	8%
</ = 1,800	40%	22%
>/ = 2,400	33%	50%

studies, developers are increasingly building product to meet the higher income level households as it is more financially feasible to build without public assistance and land use concessions. Middle-income housing is not being built by developers at a scale that meets the demand here in Minnesota and across the country.

Adam Ducker, Senior Managing Director at RCLCO and co-author of several reports on attainable housing from the ULI Terwilliger Center for Housing, commented on the challenge of building housing for middle income families at the 10th Annual ULI Minnesota Housing Summit in June 2020. He noted that the industry assumes that margins on a smaller home are always lower. "You still need to pay the architect and build a kitchen and there are other costs that don't go down just because the house is smaller. And when you logically must charge less money because the home is smaller there is an obvious economic disincentive. But that may not be a universal fact, that is a perception. Is it really the same cost per square foot? Maybe if you go from selling a $600,000 house to a $300,000 house, there are very costly things you do not need to provide -- there is a new market there at that price point that we do not understand very well yet, but who have different expectations." In addition, the industry is not building enough housing for those with moderate incomes. Mr. Ducker noted that in 2002, 40 percent of the new housing was affordable by 50 percent of the population but today only about 20 percent of the housing is affordable to those in the middle-income bands.

Proposed Cluster House for Greenbelt at 3020-3024 6th Street North, Minneapolis, MN.

The economic impact of not developing homes for those earning middle income wages is immense. A study released in May 2019 by the Family Housing Fund entitled "Housing and Economic Growth in the Twin Cities Region" notes a significant potential for losses in the MSP region if there is not an increase in construction of housing that is affordable to workers at all income levels. Key study findings indicated that:

- The housing shortfall could result in 48,344 fewer jobs in the region in 2038 than would have been possible with sufficient housing to service all income levels;
- The loss of jobs will be seen most acutely in the fields of Professional and Technical Services, Health Care and Social Services, Construction, and Administrative Support;
- The total economic loss associated with unrealized consumer spending in the region will be $1.6 billion over the 20-year period; and
- Slower job growth could result in a loss to the Gross Regional Product of $4.3 billion over the 20-year period.

KEY LEARNINGS: IT'S ALL ABOUT TRADE-OFFS

When evaluating factors such as construction cost containment, design, regulatory factors and challenges of financing, it was concluded that fixing one part of the puzzle results in tradeoffs in achieving the goal to support construction of housing affordable for middle income households.

Building Design and Amenities

There are tradeoffs in building high amenity, more complex designed developments and providing a project that is affordable to those with middle incomes. Through evaluation of the case studies, building a project with modest design elements and limited amenities does help reduce overall project costs. This can include smaller common spaces, factory build cabinets rather than custom built, vinyl flooring rather than tile or wood and less bump out and decking. In the past five years there have been a prevalence of high amenity market rate rental projects built for several reasons; developers are able to secure higher profits and enough consumers will pay an increased rent in exchange for them. However, high amenity developments are more costly and do not serve the middle-income market. Projects that include low to no amenities are a key component of the cost saving to achieve moderate

3329 Nicollet Ave., Minneapolis, MN.

affordability. This does not mean that developments for middle incomes should lack quality and functionality; rather delivering quality with more modest design elements can increase the supply of product affordable to the middle-income households without significant public financial investments.

Focusing too heavily on cost containment in order to achieve more rental affordability to the tenant today may lead to higher capital expenditures in the future. Substituting different materials and or systems that are less expensive does reduce costs initially. However, the tradeoffs could mean that there may be higher capital maintenance costs and a higher rate of wear and tear due to lack of durability and increased energy costs. Over time, it may result in higher costs to the owner; typically passed on in rent increases to tenants. That does not mean that evaluation of the specific cost containment measures is not important to understand and that these options and opportunities can provide safe and quality housing for middle incomes without subsidy but in some instances as indicated in the case studies, some regulatory concessions or public support may be necessary.

There also is a tradeoff between the perception of quality and code compliant building materials and techniques. Some level of standardization and use of lower cost products that do not impact the overall building performance and quality standards, can be impactful in providing housing that is affordable to lower and moderate incomes. However, there is a perception from the market, including tenants/owners and investors, that higher quality products are necessary to achieve the level of development returns that make the project financially feasible. Ongoing research on the preferences of the younger generations indicate that they would trade a smaller lot and home size for higher quality finishes and more customization in design features. However, overwhelmingly affordability is the key factor in home purchases for the younger generation as well as a desirable location close to community amenities and work.

Labor Impacts Costs and Affordability

Labor shortages impact costs and on-time delivery of a project. For all projects, the cost of labor is a key driver in the overall inability to reduce costs. Not only is labor becoming increasingly more expensive, but the lack of qualified labor increases the time to complete projects and increases cost overruns. Studies conducted by the Associated General Contractors (AGC) in 2018 and 2019 cited skilled labor shortages that resulted from the net loss of over 2.3 million construction jobs dating back to the last recession (2006-2011). As a result, there are currently 23 percent fewer laborers in

Case Study Finding

Based upon the case studies, supporting the construction of "value housing;" housing with less customization, less complex building design, less amenities, fewer high-cost fixtures, and modified mechanical systems can result in a savings of approximately $20,000 - $60,000 per unit.

the workforce than there were in 2006. And higher skilled tradespeople such as plumbers, electricians and carpenters are down about 17 percent, exacerbating the increase in labor costs and shortage of workers needed to meet demand. A survey completed in August 2019 found that 80 percent of the residential construction firms reported having a hard time filling skilled labor positions.

The labor costs and industry labor shortages impact small to medium sized projects at a higher rate. The key construction trades (electrical, framing, plumbing) demand higher prices due to these labor shortages. Smaller development firms are at a disadvantage when competing for limited labor in these trades with larger, more established developers who are delivering a higher volume of projects and can guarantee a more consistent flow of work.

There is a **tradeoff between attracting a limited skilled labor force with higher wages and reducing the costs of construction** so that developments can be less expensive and in turn more affordable. When projects require **Davis Bacon or prevailing wages** this can add 10-20 percent in construction costs to projects of any size. While supporting a living wage for the construction trades is an important goal, some trades labor union requirements will limit a development's ability to negotiate overall prices based upon the ability to deliver expected work in a condensed time frame. However, developers should evaluate the benefit when skilled labor can be relied upon and consider the price for this benefit. However, if it is deemed critically important to demand labor union wages for projects, there may need to be public concessions applied to the project to make it financially feasible to deliver for those with middle incomes.

The impacts related to finding a skilled labor force are higher in Greater Minnesota. In many cases, labor costs may be less in locations outside of the metropolitan area, but the lack of available labor force with the right skill sets reduces efficiency, increases time to deliver the project, and can result in costs similar to labor costs in the metro area.

Davis Bacon Act

The Davis Bacon Act is a federal law that mandates on-site workers be paid certain wages, benefits, and overtime (also known as "prevailing wage") on all government-funded construction, alteration, and repair projects.

City Policies Impact Costs

In many instances a community's goal to support affordable housing does not align with the costs attributed to the approval process and current land use codes including density, unit size, materials and other design features. Alignment of the system (from policy, to supporting affordability, to implementing the policy) is required to reduce the time and cost required to build projects that are affordable to middle incomes 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.

Upfront costs impact smaller less dense developments that are desired by many communities. There is a financial disincentive to build less dense projects, particularly in high market metro areas. The overall returns are lower with the same fixed pre-construction costs regardless of the size or scale of the project. The preconstruction costs in general include up-front due diligence reports (surveys, environmental studies, title work and geotechnical reports), legal, architectural, and civil engineering fees, permit fees (sewer/water, building, and park dedication fees), insurance and real estate taxes. These costs can be 10-20 percent of the total project cost prior to starting construction regardless of its size and scale of the project. This impacts the feasibility of projects unevenly and the ability to offer those projects at an affordable level.

There also remains a tradeoff in the size of a project and the ability to deliver that product affordably to middle incomes. Larger sized projects for the middle incomes are possible to build in some cases, and smaller to medium sized projects are possible but generally target higher income rents. As indicated by a recent case study in Rochester called Tech Park, delivering a new rental apartment project for low-moderate incomes was possible without the traditional Low-Income Housing Tax Credit assistance. However, it similarly concluded in this work several trade-offs were required related to labor costs, design, parking, and socially minded equity. A smaller sized project in this case would have required more concessions and public investment.

WHAT'S GETTING IN THE WAY OF SUCCESS?

Through this work, several key factors emerged that hinder the ability of developers to deliver housing affordable to those with middle incomes without some form of land use concession or public financial assistance. Overwhelmingly, parking requirements, land costs, design requirements, development project efficiencies and local land use regulations were the biggest factors that get in the way of success in delivering a product for the middle-income households.

Cost of Parking. Parking requirements, whether required by city code or demanded by financial investors, impacts a project's cost significantly. Required underground and/or ramped parking structures are a large cost to projects no matter the size. This is particularly true for projects where land for surface parking options may be limited and structured parking is required. Underground or ramped parking adds 10–20 percent to the cost of a project. Also, when the local government demands a higher parking ratio than the development deems necessary, there are wasted costs added to the project to account for parking that may not be needed. Many communities do not allow street parking which could help to alleviate the cost to account for parking within a development.

High Land Costs in Desirable Locations. The cost of land for infill projects in general is higher than vacant land and it is particularly evident in desirable locations closer to transit, job centers, the urban core, and key amenities. The higher land cost impacts the ability to deliver projects for middle incomes without public assistance. In some cases, developers report success in finding land that is zoned for a different use and working with friendly regulatory environments to rezone to multifamily, and in other cases, working with cities to develop city owned land may help reduce predevelopment costs if municipalities can be patient with closing deadlines.

Community Land Use Regulations Impacts Cost Reduction. Value pricing, the strategy for setting prices primarily based upon the consumer's perceived value of the product, can hinder the ability of a developer to deliver quality projects that do not include amenity-rich designs and higher priced finishes. To deliver housing at an affordable price without public assistance, the overall project costs must be reduced by removing many of the amenities

and higher end design features. However, this is not always accepted by the neighborhood or allowed by city code. If cities are more accommodating with design and material requirements, this could enable cost savings particularly to meet middle income rents and ownership levels. All or some of the following concessions impact overall project costs including:

- Allowing slab on grade rather than basements for single family homes
- Supporting smaller lot developments
- Allowing smaller square footages for homes or individual rental units
- Allowing fewer required parking spaces per unit or bedroom count when the market does not demand it or allowing car garages, carports and surface parking rather than underground parking
- Accepting fewer amenities and less expensive finishes for floors, cabinets, doors, and fixtures.

Some local zoning restrictions are more impactful on smaller, less dense projects. Larger, more dense projects in many cases are able to absorb the added costs resulting from possible inconsistencies in interpreting a city code within city departments that create project delays, and unclear modifications due to zoning restrictions and the permitting process. While these factors can have a significant impact on all projects, smaller and medium sized projects are impacted at a higher rate as their profit margin is more volatile and are unable to absorb project cost fluctuations. Examples of how zoning restrictions increase costs include:

- Unclear process for approvals resulting in an extended closing timeline.
- Inconsistencies in interpreting what is required per the building code.
- Inflexibility in variances related to lot size restrictions including setbacks, minimum lot size, floor areas, coverage ratio, etc.

There is a disconnect between the demand and supply of housing under four units. Currently, there is a disincentive to constructing Accessory Dwelling Units (ADU) due to the costs associated with drawing up plans and architectural drawings as well as required land surveys, and other requirements made by local communities to gain approval to construct an ADU. In addition, there are currently few options available to live within a building under four units, but there is a high demand and desire for this type of housing. Research indicates that there is growing support and desire to

purchase a home with an ADU and rent in a building that is not over four units. According to Zillow Research, the term Accessory Dwelling Units appeared in 5.7 percent of home listings nationwide in 2019. In addition, in 42 of the largest 49 metros with available data, renting a home in a two-, three-, and four-unit building is less expensive than renting a single-family house. The construction of these homes made up only 4.3 percent of homes built since 2000, compared with 8.2 percent in the 1980s. Two-thirds (60 percent) of homeowners with an annual household income less than $50,000 said they agree that homeowners should be allowed to add housing units to their homes – a somewhat higher share than the 56 percent of homeowners with higher household incomes that said the same. And homeowners of color were more likely to support allowing homeowners to add additional housing units to their property: 67 percent of African American homeowners and 62 percent of Latinx/Hispanic and Asian American support it, compared to 54 percent of white homeowners. Currently, the added income an owner would receive by renting an ADU is not recognized as a project source in underwriting the financing. In addition, the added cost, process, and financial returns outlined in this report are barriers to both.

Accessory dwelling unit lightHouse #1 design.

RECOMMENDATIONS

After the team considered the barriers to building more missing housing for middle incomes, they identified the following recommendations framed around construction costs, design optimization, financing, and land use regulations. While applying all these recommendations would collectively have the most impact on a project, considering one or just a few within a project is a pathway to increasing the options and opportunities to increase the supply of missing housing for middle incomes.

The following principles should be considered outside the context of each of the main themes focused on collaboration, communication and alignment of goals. These principles are critical if the goal is to increase new middle-income housing in cities across the state.

- **Align policy 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. In addition, government policies and regulations should be rooted in the prioritization of agreed upon goals that support innovation.
- **Match spending of public funds with the priorities**. If policies call for an increase in construction of housing for 60–80 percent of AMI, then public resources should be allocated to that product.
- **Clear communication** among the spectrum of stakeholders is required to understand and agree on the goals of a project prior to development approvals. This includes assuring that there is meaningful and equitable community engagement on future land uses and that outcomes of that process are clearly communicated to the development community so they can adequately respond.
- **Clarity in leadership** across all departments, including planning and city council, is necessary to ensure that mutual goals can be achieved throughout the process from approvals to construction.

1. Consider Ways to Reduce Construction Costs

Allow alternate, lower cost systems by right. Currently, city approvals for alternate lower cost systems are more complex and even if policy allows alternate systems, buy in is needed from city officials (planning, building officials, city council and planning commissions) to reduce the added approval time that increases the cost of a project.

Some examples discussed include the following.

- Allow lower cost exterior materials.
- Allow slab on grade rather than requiring a basement in single family.
- Allow flexibility around types of parking requirements to what the market will bear for both single family homes and multifamily projects.
- Provide surface, shared or proof of parking rather than requiring ramped or underground parking which increases the construction costs significantly.

Support lower cost heating and air conditioning systems. For multifamily projects, installing PTAC (packaged terminal air condition systems) results in $5,000-$8,000 per unit cost savings. These systems work well for projects under 100 units that are self-contained and do not rely on a duct system to operate but the cost savings are significant in reducing the overall unit cost to the project. Furthermore, PTAC units are easily serviced since they are more accessible and less costly to replace.

Support modular and panelized construction. Modular and panelized construction can be delivered at scale with cost savings to make it a more attractive option throughout the industry. According to the research summarized by the Construction Revolution workshops, there is a potential for a 20–50 percent reduction in overall project cost, with early systems demonstrating an average cost savings of 24 percent. Recent local projects have proven that the cost savings reduce the rents so they can provide affordable housing for middle incomes. Some of the benefits, aside from costs savings include:

- The ability to reduce neighborhood disruption, through faster construction times.
- Increase options for infill in small urban sites where customization and delivery of the product reduces uncertainty and the increased cost of multiple contractors.
- Less project waste and higher value outcomes due to indoor warehouse safety and consistency of process.

2. Allow Design Optimization

Pre-Approve Designs. Turnkey designs allowed by right, particularly for smaller units such as Accessory Dwelling Units (ADUs), duplexes and triplexes can reduce the overall delivery time, thereby reducing project costs. One option is for cities to provide a list of pre-approved designs to make it easier for individuals to add ADUs or convert existing larger single-family homes into multiple units. The result is a cost savings and an increase in the number of units constructed. When customizable plans are provided and approval processes are expedited, there is a reduction in preconstruction fees resulting in an increase in construction of ADUs, duplexes and triplexes.

Maximize efficiencies and economies of scale. Neighborhood organizations or small-scale developers could identify opportunities to build multiple ADUs in a neighborhood at the same time, helping achieve economies of scale. General contracting and project management services, non-profit or other community-focused housing organizations could provide these services at lower than market costs. Providing access to a list of architects, contractors, and other professionals with expertise in building ADUs would also be a useful resource for property owners.

Case Study
Encinitas California Permit Ready ADUs

https://encinitasca.gov/pradu.

Permit-Ready Accessory Dwelling Unit (PRADU) Program

The PRADU Program encourages the construction of ADUs by offering property owners a selection of pre-approved ADU building plans that can be downloaded from this page. The permit-ready plans include customizable options to allow for variations in exterior materials and door and window fenestrations to express individual owners' tastes and respect community character. The program assists property owners in creating ADUs by providing customizable plans, expediting the process, and reducing preconstruction fees. The program also helps the city meet strategic plan goals by providing diverse housing options throughout the city.

Program History

After releasing a request for proposal, the City selected two local architects to collaborate with to establish criteria and create a collection of plans for the PRADU Program. The architects were tasked with preparing a series of units: a studio, a one-bedroom, a two-bedroom, and a three-bedroom. Each architects' set of plans provide unique variations and benefits. The options from Design Path Studio are designed in a way that makes it easy for the owners to add bedrooms in the future. The options from DZN Partners offer an expansive list of exterior options and roof lines.

Ensure alignment of vision between the developer and architect. In some cases, an architect/designer's desire to include unique features unnecessarily increases the cost over simpler building design and interior features. And while building bump outs and unique design features add to the market desire for a building, when the goal is to provide quality at mid-level affordability, these types of features that add cost become less important. As indicated by our content experts, it is particularly important that developers have a team in place with shared and clear goals for delivering overall quality construction at a lower cost to meet the goal of targeting rents affordable to middle incomes. This is even more impactful for the smaller more entrepreneurial developers who do not have in-house architects and designers.

3. Increase Access to Social Impact Equity and Creative Bank Finance Structures

Identify and/or create social impact capital at a below market return. The private equity market is attracted to higher yielding projects, which generally is achieved when projects charge higher rents, all else held equal. If a goal for the project has been set by either the development team, city, or neighborhood which would require more affordable rents to be included in the development, it is usually made possible through subsidy such as TIF, donated land, waiving of certain fees, grants and deferred gap loans. In the absence of these identified forms of subsidy, lower cost sources of debt and equity capital are instrumental to getting a project to become feasible. This type of equity generally comes from socially minded investors who accept a lower rate of return over a longer period, in exchange for a requirement to hold a percentage of units at target AMI levels for some set period of time or until the equity is outstanding, with affordability criteria that mirror public funding affordability restrictions.

A below market return on equity model was applied to a 164-unit project in Rochester called Tech Park (Case Study outlined in this report). Greater Minnesota Housing Fund (GMHF) developed a product that provided a significantly lower than market rate cost of equity and also bridged that equity with a low-cost construction loan to further reduce costs (as senior debt is less expensive than the equity). In exchange, the developer agreed to hold a set number of units to be rented at various AMI levels (60–80 percent) while the equity is outstanding, plus a 5-year affordability tail, for a total 15-year affordability period.

Low-Cost Debt. In 2019, Freddie Mac developed a product called the **Workforce Forward** loan program which was a mechanism for developers to fix an

attractive interest rate using a forward rate lock on their permanent loan in exchange for holding some units at a less than market rate rent. It was incredibly well received, but new parameters to the program make it much more difficult to use today. However, innovative debt products like this could help spur additional developments that are affordable for middle incomes.

Partner with banks to create new financing options for housing under four units. In most cases, traditional bank financing is inflexible and too costly for smaller unit housing such as accessory dwelling units, duplex and triplexes or converting existing large home into multiple units. These product types are perceived as a riskier form financing which increases the lending cost. Furthermore, there can be a risk to the consumer if their financing is based upon future rent payments. Partnering with banks to consider the benefits of supporting these housing types and their impact on the ability to support housing for middle incomes is an important strategy and recommendation from this work. One option is to develop a flexible bank financing product specifically for single family expansions including ADUs and two to three-unit developments. As an example, identifying a bank that would allow a portion of the income generated by the development of an ADU may lead to more homeowners adding them on their existing properties; many of which are rented at levels affordable for those with middle incomes without additional public investment. Consideration should be made that balance the risk of consumer defaulting on their overall property if rent payments are not made. Identifying guidelines on what the key parameters for lending in these situations would be beneficial to the industry.

Modular Housing. Modular and panelized construction can be less costly and less risky particularly for smaller and medium sized projects where profit margins are very thin and more susceptible to project delays. The benefits of modular include reduced neighborhood disruptions, lower construction costs due to less project delays and reduced construction time, less interest expenses, less project waste and higher value outcomes due to indoor warehouse safety and consistency of process.

One of the more significant barriers for the modular industry, however, is a lack of financing tools that support this type of construction build. Therefore, capital is more expensive and harder to secure. Creating a bank or insurance product that supports the modular and panelized construction industry could have the potential to increase the options and opportunities to expand the market and reduce costs. One of the main challenges for financing projects

of this nature is that lenders are asked to pay for work that is taking place off-site and not adding immediate value to the land, for which the lender has a mortgage. In situations where much of the construction takes place offsite, the amount of offsite risk is considerable and making collateral collection nearly impossible in the event of a default. Alternatively, if the insurance industry were to come up with a solution that would allow a lender to get comfortable, that may have a positive effect on the modular industry as well.

Recommended strategies to increase awareness and support of funding options include:

- Work with Construction Revolution to increase the understanding of this real estate technique and provide assurances to the finance industry.
- Support an educational program for the elected officials as well as building and permit staff.
- Support pilot projects to provide confidence in the industry in the region and across the state.

Modular construction at 4200 32nd Avenue, Minneapolis, MN.

4. Modify and Simplify Local Land Use Regulations

As noted above, profit margins for small and medium sized developments generally are impacted at a higher rate due to small fluctuations in the cost of a project caused by inconsistencies, delays, and unclear modifications related to land use codes and permitting processes. The following are recommendations that could remove some of the barriers in developing affordable housing for those with middle incomes without public investments.

Allow reduced parking – Support flexibility in how much parking is required depending upon the location, size of the project, proximity to mass transit, and market demand. If the project has the space to accommodate parking without having to construct it underground, this should be allowed. In addition, allowing other innovative ways to accommodate parking such as shared parking, street parking and car ports or car lifts to alleviate the cost to account for parking within a development. One innovative method to increase parking on a tight site includes car lifts which is a hydraulic machine by which automobiles are hoisted above the floor to give access to the underparts increasing more spaces for multiple vehicles.

- **Allow car lifts to be counted in the total parking number**. One innovative method to increase parking on a tight site includes car lifts which is a hydraulic machine by which automobiles are hoisted above the floor to give access to the underparts increasing more spaces for multiple vehicles. Allowing car lifts within a project to meet the required parking ratio, particularly in areas with limited parking options, could open up

Car lifts at M on Hennepin helps maximize parking space. Schafer Richardson Development.

the ability to add more units on a site that otherwise would have been restricted due to space limitations. Currently, since the market demand is limited, the cost to accommodate car lifts ($16,000 - $20,000 per unit) in a project is similar to underground parking ($20,000 -$25,000 per unit). The cost of car lifts are approximately $9,000 but the installation and added foundation and electrical costs can increase the total cost by $7,000 to $10,000 per unit. Utilization of car lifts will reduce the $9,000/ unit cost, making it more cost-effective in the future.

Ensure a clear process and consistent requirements. Most developers anticipate 12-24 months of financing prior to land use approvals. There is a real cost to a development if it takes longer to get approvals than anticipated, generally in the form of additional interest costs. Unanticipated changes to a project due to redundant regulations and/or last-minute modifications increases the overall cost of a project. Some examples that local governments should consider and be clear about include the following:

- Eliminating redundant regulations that do not impact the safety or quality of a project.
- Outlining consistent and clear regulations for projects in single family neighborhoods that are allowed to add ADUs or 2-3 units to the site.
- Identifying zoning requirements for areas that allow large home conversions into multiple dwelling units.

Allow more by right development for smaller projects. Consider what is appropriate and acceptable and make it legal to be able to build to that standard. Allow more flexibility for a different style of living – co-living; roommates, multi-generational; single room occupancy, rental and owner within the same structures, etc.

This includes allowing ADUs within the existing home by right without additional land use approvals. Creating ADU design guides and pre-approved plans that do not require additional land use approvals could increase development as evidenced in other markets across the country. This would also facilitate a smoother, faster permitting and building inspection process.

- For example, the West Denver Renaissance Collaborative (WDRC) has five permitted designs for its ADU pilot program called the West Denver Single Family Plus (WDSF+) Initiative. This program is available to qualified moderate- and low-income homeowners. Seattle is working with

designers and builders to develop pre-approved construction plans for detached ADUs, which will be made available in an online gallery with images, description, and information about the designer.

- Modifying the required lot coverage restrictions and side and rear yard setbacks for ADUs would help to reduce the process and save costs. Local land use codes may require a variance or additional process when an ADU is added to a parcel that encroaches within the rear or side yard setback limitation or increases the lot coverage over the allowed total percentage. Modifying local codes to allow ADUs to be constructed without having to go through an additional process would reduce the overall cost and process and encourage more homeowners to pursue adding ADUs.
- Adopt form-based zoning – zoning by right for smaller lot sizes and homes with multiple units that are at the same scale of larger single-family homes.

Increase neighborhood support. Conduct neighborhood forums and listening sessions regarding the value of smaller scale development that can be achieved at a less disruptive and less costly manner, including information on changing demographics, income levels, and overall market conditions. Create public information sheets for cities and developers outlining the cost and benefits of smaller scale projects that provide affordability without deep public subsidy. One method is to **frame the conversation about land use differently** by focusing on changing households, less large families, modified preferences for living, and need to accommodate future workforce to remain economically competitive.

Support modified and less costly heating and cooling systems within existing building codes. As noted above, the usage of PTAC rather than Magic PAK heating and cooling systems can significantly reduce the overall development costs and are as efficient and easier to service. However, local approvals for alternate systems are varied and, in some cases, not allowed which diminishes the cost savings.

Reduce fees in exchange for housing for middle incomes. The ability to reduce or provide waivers for sewer access charge (SAC), water access charge (WAC), park dedication and other local fees for projects that target the middle-income households would provide overall project cost savings.

- Many of these charges are at the discretion of the local unit of government. As an example, the park dedication fees per unit are an

Accessory Dwelling Units

Definition

Accessory Dwelling Units (ADUs) are secondary housing units that can be attached or detached accessory structures associated with single or multifamily dwellings.

Case Study Example, Santa Cruz County

ADUs are part of the solution to Santa Cruz County's critical housing shortage and high housing costs.

www.sccoplanning.com/ADU.aspx

average of $3,000 and WAC fees are approximately $1,000. These costs vary from city to city and if reduced could impact the ability of a project to be affordable to those with middle incomes.

- SAC charges in the metropolitan region are set by the Metropolitan Council. Currently, Metropolitan Council provides a 20 percent discount for apartment buildings with four or more units that have no in-unit laundry, but this discount for centralized laundry is not extended to triplexes and duplexes. This creates a disincentive to develop housing under four units by approximately $2,500 per unit. In addition, for affordable housing where there is a public subsidy tied to a unit, there is a 25 percent discount. However, that discount does not apply to projects under four units.

  - » The Metropolitan Council should consider modifying their discount criteria to specifically target projects that add up to four units and/or new ADUs where the rent or sales price is affordable to middle incomes households.

Proposed Cluster Homes for Greenbelt at 3020-3024 6th Street North, Minneapolis, MN.

OVERVIEW OF CASE STUDIES

The following case studies provide an overview of developers who have risen to the challenge of developing housing for middle income wage earners. The table below summarizes these projects, and the findings are consistent with what the panel shared during discussions: developing smaller, infill projects generally lend itself to higher construction costs per unit, and that scale is ultimately what can bring cost down. Without scale, efficient processes and flexible regulatory environments are necessary to provide housing at these rental ranges. More detailed overview and information regarding these case studies can be found in Attachment A.

Project Name	City, State	Units	TDC/Unit	Targeted Rent/Mortgage Range	Developer
2410 Dupont	Minneapolis, MN	2	$272,000	<80 percent AMI	Magnolia Homes
Greenbelt Homes	Minneapolis, MN	11	$399,274	<80 percent AMI; <115 percent AMI	Project for Pride in Living
3329 Nicollet	Minneapolis, MN	12	$250,000	<80 percent AMI; 100 percent AMI	Pocket Properties
MN46	Minneapolis, MN	54	$192,222	60 percent AMI	Ackerberg/Harlow Hayes/Left Lane/Twin Cities Home Rental
Technology Park	Rochester, MN	164	$120,083	60 percent AMI, 80 percent AMI, Market	Real Estate Equities

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Missing Housing for Middle Incomes

CASE STUDY
2410 DUPONT AVENUE

Project Summary

Minneapolis Homes Program (Round 4) – The subsidized project includes a two story slab on grade twin home with detached garage constructed on a single family home lot in North Minneapolis. Each unit is 1,625 square feet, three bedroom, two bath home with low step entries and will be sold targeting a buyer with income at or below 80% AMI. The project includes traditional neighborhood design, Energy Star rating, and open concept design with large windows. In addition, the project includes a shared party-wall split garage with 1 car garage per unit.

Key Innovations

The twin homes are sized smaller than a traditional single-family home while increasing density by sharing a single city lot. An asymmetrical exterior design enables the home to better blend into the neighborhood. Basements were eliminated to save costs but a 2nd floor loft area was included in the design to provide additional finished space for family use. Costs were further reduced by providing only one garage stall per unit in a party wall split garage.

Site Challenges

A minor challenge included the relocation of an electric service pole to allow the construction of the two car garage at the rear center of the lot.

Lessons Learned

- City processes and procedures were not in place to allow installing some utilities separately to each unit which created a project delay. However, supportive city staff helped developer resolve issues. As more lot splits are proposed in the City due to the modifications provided in the 2040 Comprehensive Plan for duplex and triplex units within single family neighborhoods, the City should anticipate and allow a more streamlined process related to separating utilities.
- In addition, the lot split process added complexity to the project. This too is an area of opportunity for the city and county to simplify the process and support and encourage increased density on single family lots.

QUICK FACTS

Location
Minneapolis, MN

Site size:
7,829 square foot lot
Floor Area Ratio of 41.51

Special features
Energy Star rated. Incorporated visitability design features.

Project address
2410 Dupont Ave N
Minneapolis, MN 55411

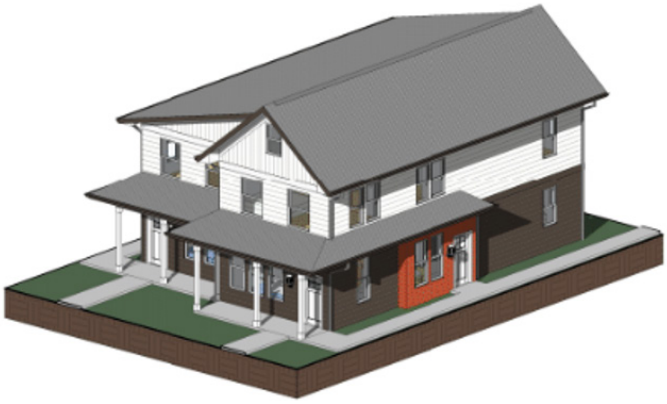
Developer
Magnolia Homes, LLC

General Contractor
Magnolia Homes, LLC

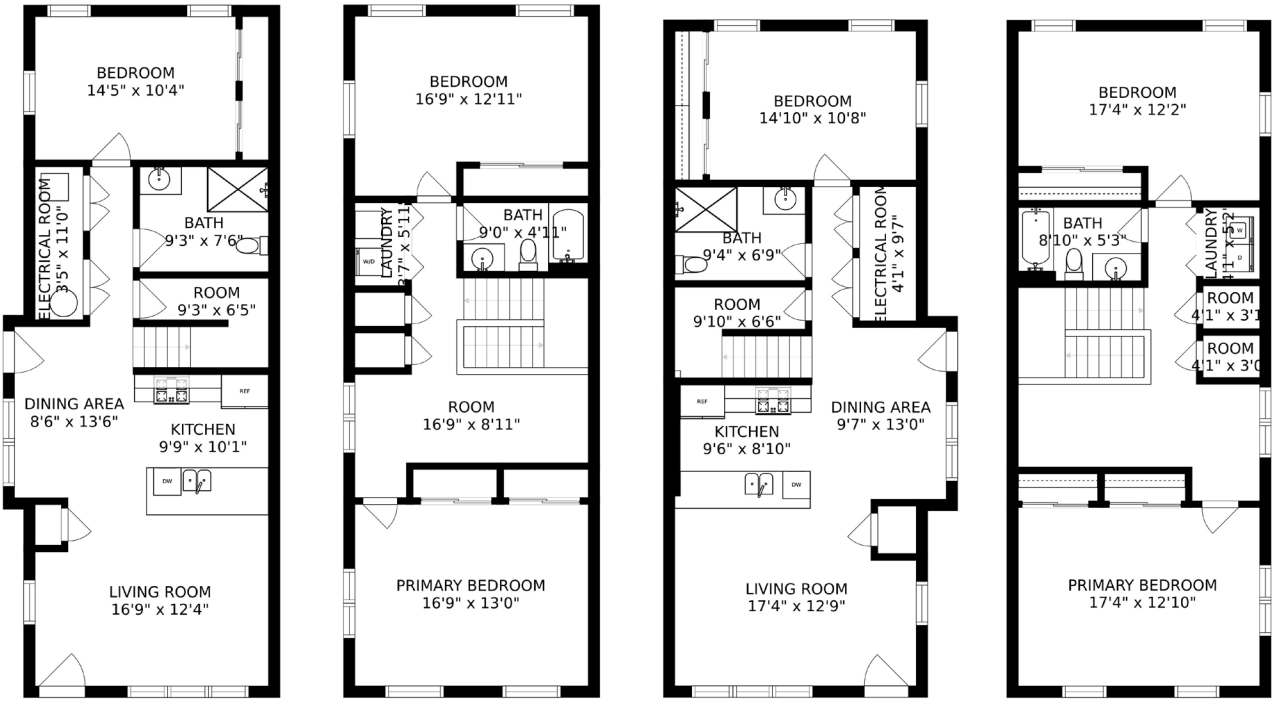
Architect
iGREENDESIGNS, Inc

SOURCES & USES / FLOW OF FUNDS

Sources	Construction	Permanent	Per Unit	% TDC
1st Mortgage	430,000	430,000	215,000	79%
CPED Project Gap	95,000	95,000	47,500	17.40%
CPED Affordability Gap	20,000	20,000	10,000	3.60%
Developer Equity				
Total sources	545,000	545,000	272,500	**100.00%**
Uses				
Land & Site Work	10,250	10,250	5,125	2%
Hard Costs	425,500	425,500	212,750	78%
Soft Costs	14,215	14,215	7,108	2.60%
Developer Fee	41,435	41,435	20,717	7.60%
Financing & Legal Fees	3,500	3,500	1,750	0.60%
Interest & Reserves	7,000	7,000	3,500	1.30%
Contingency	20,600	20,600	10,300	3.80%
Realtor Fee	22,500	22,500	11,250	4.10%
Total Uses	**545,000**	**545,000**	**272,500**	**100.00%**



TOP LEFT: A 3-D image of 2410 Dupont. TOP RIGHT: Rendering of the rear view of the home with the garage in the foreground. LEFT: Aeiral view of the 2410 Dupont site.



SIZES AND DIMENSIONS ARE APPROXIMATE, ACTUAL MAY VARY.

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Missing Housing for Middle Incomes

CASE STUDY
GREENBELT HOMES

Project Summary

The Greenbelt Homes development was proposed as a for-sale single-family project, located within the EcoVillage in Minneapolis' Hawthorne neighborhood. The development includes eleven single-family houses with detached garages and consists of nine 2BR/1.5BA units and two 1BR/1BA units. Nine units will be restricted to buyers who have middle incomes at or below 80% of the area median. The remaining two units will be restricted to buyers at or below 115% of AMI. Greenbelt Homes helps to complete the Hawthorne EcoVillage neighborhood revitalization plan which includes a mix of new and renovated single family homes and affordable rental options.

Special features

The inhabitants of the development will equally share a central green space that has a large tree as the focus. Each development will have a separate parking space that will have a turnaround space for trash pickup. A condominium association will govern this development and ensure the maintenance of common areas as well as capital expenditures such as water and sewer systems.

Key Innovations

Creation of New Affordable Housing for Middle Income Households within Hawthorne Eco-Village

The Greenbelt Homes will nearly complete the revitalization of an area targeted by the neighborhood association for redevelopment. This area of the city was once a notoriously dangerous couple of blocks plagued by abandoned buildings and drug dealing. The EcoVillage now boasts 17 new and renovated owner-occupied homes, quiet streets, and a 75-unit affordable rental development - Hawthorne EcoVillage Apartment, completed recently. The success of the EcoVillage to date has been a result of the coordinated efforts of a diverse network of partners – including the Hawthorne Neighborhood Council, the City of Minneapolis, Habitat for Humanity, and many others – the commitment of a core group of residents, and incremental progress toward the ambitious goal of sustainable neighborhood redevelopment.

The Greenbelt Homes development responds to the need for additional housing options for smaller families at an affordable price for middle incomes, which the current market lacks. Today, most single-family houses are built with larger footprints, ranging anywhere from 1,500 to more than 2,500 square feet. These larger homes are inherently more

QUICK FACTS

Location
Minneapolis, MN

Site Size
0.82 Acres (35,836 sq. feet)

Project Address
3020-3024 6th Street N
& 409-429 31st Ave N
Minneapolis, MN 55411

Developer
PPL Homes LLC
1035 E Franklin Avenue
Minneapolis, MN 55404

General Contractor
Flannery Construction
1375 St. Anthony Ave
St. Paul, MN 55104

expensive for lower income households to buy and maintain. The Greenbelt Homes development includes homes with a smaller footprint between 596 and 856 square feet, a common area for parking and shared greenspace.

Having turned away many potential buyers because they are over-income, Greenbelt Homes development is structured with a mix of incomes. At least nine of the eleven units will be restricted to buyers at or below 80% of AMI, and the remaining two units will be restricted to buyers at or below 115% of AMI. This approach builds income diversity into the Hawthorne EcoVillage, which better supports neighborhood businesses and services.

Design Features

A compact and simple building form allowed for modular production and some cost savings. A planned unit development allowed for detached single family dwellings at a density of 13 units/acre.

Exterior

- 15'-10" width allows for modular construction, each unit having two stacked modules.
- Quasi-traditional two-story exterior treatment, including front porches and detached garages, complements existing older single-family homes.
- Eco-friendly landscape design maintaining existing mature oak tree and making extensive use of native prairie plantings.
- Meets Minnesota Green Communities' standards for energy consumption and material use.
- Units clustered around shared greenspace to encourage community building.

Interior

- Compact units for energy efficiency and cost savings.
  - » 2-bedroom, 2 bath – 856 sf
  - » 1 bedroom, 1 bath – 596 sf
- Energy star appliances and an efficient mechanical system.
- Full basement with egress windows to allow for expanded living space.
- Open floor plan with lots of windows to give a more spacious feel and allow the space to be used in multiple ways.

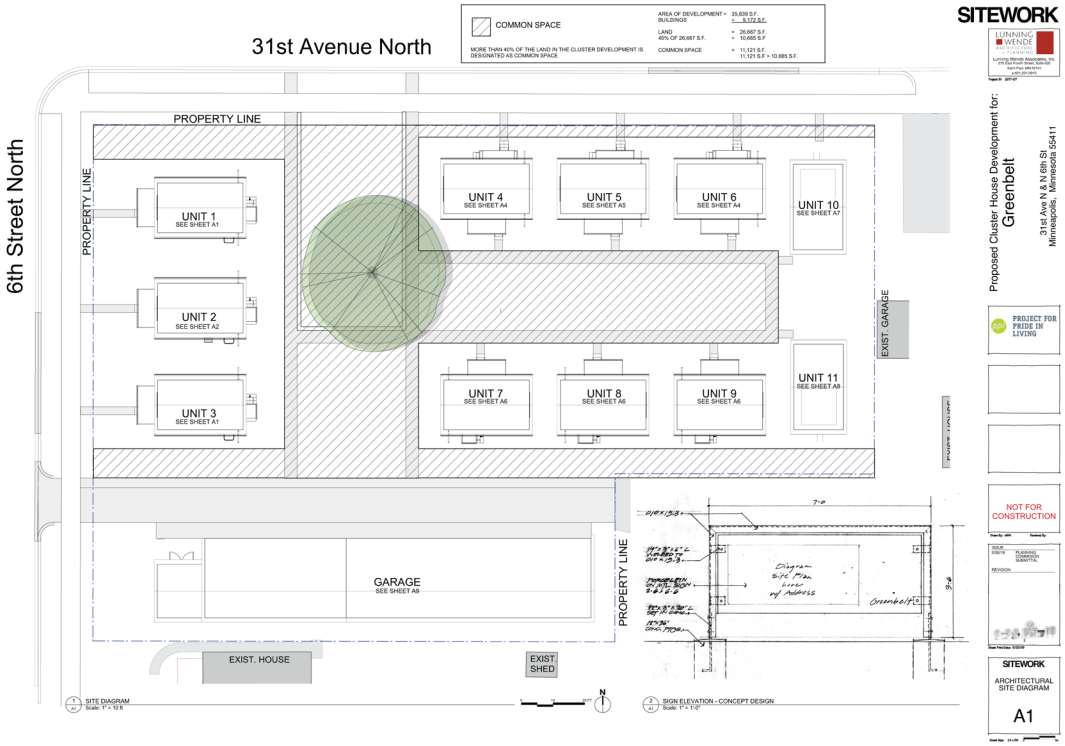
Lessons Learned

The project, as proposed, failed to materialize due to the loss of a key gap funder. This forced the project to be reconfigured from 11 to five units in a more traditional development format with larger square footages. However, in a higher market context with fewer regulatory requirements, this approach might well have penciled out.

- Though the units were considerably smaller than is typical, there was not a commensurate drop in the construction cost, because a lot of relatively inexpensive spaces was removed, but not the upgraded kitchens and bathrooms.
- Modular construction did not result in significant construction cost savings, though there would likely have been time savings. Developing a project with more than 11 units may very well result in more substantial economies of scale and overall reduced costs.
- The market assessment and focus groups indicated that full basements were highly desirable, however, they may not have been a necessity. Their elimination would have allow a more affordable project.
- Regulatory requirements for exterior treatments and a variety of other items such as prevailing wage rates added costs to the project. This was one of the main reasons for seeking city public investment in the project.
- The largely self-imposed high environmental standards also added cost. While they are a noble goal of the project and would save costs to the owners in the future, they did add costs to the project initially.
- The City of Minneapolis encouraged this new approach that included a different unit configuration, smaller units and more density.
- The configuration of the existing infill site was less than optimal and higher density could have been achieved in a different setting.

SOURCES & USES / FLOW OF FUNDS

Sources	Construction	Permanent	Per Unit	% TDC
New Market Tax Credits	884,873	884,873	80,443	20.10%
MH Housing Impact Fund	550,000	550,000	50,000	12.50%
City of Minneapolis - HOW	495,000	495,000	45,000	11.30%
CPED CDBG	79,241	79,241	7,204	1.80%
NRP Grant	76,000	76,000	6,909	1.70%
Sales Proceeds		2,198,900	199,900	50.10%
Metropolitan Council LHIA	108,000	108,000	9,818	2.50%
Interim Construction Loan	2,198,900			
Total sources	**4,392,014**	**4,392,014**	**399,274**	**100%**
Uses				
Acquisition and Holding Costs	208,615	208,615	18,965	4.70%
Hard Costs	3,200,000	3,200,000	290,909	72.90%
Soft Costs	158,080	158,080	14,371	3.60%
Regulatory Fees and Park Dedication	25,454	25,454	2,314	0.60%
County Property Tax	1,200	1,200	109	0.00%
Developer Fee	337,429	337,429	30,675	7.70%
Realtor Sales Fee	109,945	109,945	9,995	2.50%
Financing & Legal Fees	188,650	188,650	17,150	4.30%
Contingency	162,641	162,641	14,786	3.70%
Total Uses	**4,392,014**	**4,392,014**	**399,274**	**100.00%**



PROJECT RENDERINGS

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ULI MINNESOTA HOUSING STUDY | 2021

Missing Housing for Middle Incomes

CASE STUDY

MN46

Project Summary

MN46 is a 54-unit multifamily rental apartment development located in Minneapolis, MN, in what is known as the Longfellow neighborhood. The project includes a mix of studios, 1-BR, and 2-BR units and offers surface and interior covered parking. The project delivers first class in-unit finishes and features attractive to market rate renters. Controlling costs of construction and operations was accomplished through trade-offs including smaller scale common area amenities and surface parking as opposed to underground parking. The building design highlights the busy corner providing great exposure for the project. The corner is highlighted by copper railings at balconies, the common amenity space, and a concentrated energy of the residential entry and a small commercial area.

The design also utilizes on grade townhomes, and steps down in height and steps back from the street to provide a gracious transition into the single family neighborhood to the north. The building design responds to a complex trapezoidal site. The shape of the site provided opportunities for a wide mix of unit shapes and styles, it also created challenges to efficient construction.

- High construction costs are often a barrier to delivering residents great units at a reasonable price. The team designed the project to minimize construction costs with slab on grade construction, efficient wood framing, smaller unit sizes and minimal circulation areas. These savings trickled down to the residents as the costs for comparable new construction units of this size are 10-20% more expensive on other projects.

Rent ranges for the various unit types are as follows:

Unit Mix & Rents		
Type	**Count**	**Rent**
Studio	7	$1,050 – $1,215
1 Bed	44	$1,175 – $1,750
2 Bed	3	$2,195 – $2,395

QUICK FACTS

Location
Minneapolis, MN

Site size
0.358 acres

Website
https://mn46apartments.com

Project address
4555 Minnehaha Ave
Minneapolis, MN 55406

Developer
ACKERBERG
Hayes Harlow
Left Lane Ventures
Twin Cities Home Rental

General Contractor
YellowTree Construction Services
1834 East 38th Street
Minneapolis, MN 55407

Architect
Collage
708 15th Ave NE
Minneapolis, MN 55413

Interior Design
E. Christen Design

Site Challenges

The site and shape of the site was a small, tight, irregular corner lot situation in a commercial residential neighborhood. The challenge was met with an opportunity to get creative and develop a building that was complementary in size and style to the neighborhood, but also very efficient from a density perspective.

Lessons Learned

Neighborhood relationships matter.

The City of Minneapolis had adopted a new Comprehensive Plan that called for considerably increased density in this low-rise single-family neighborhood. There was general concern in the neighborhood regarding the change in density and its effect. The development team approached the neighborhood early to develop trust and acceptance, but mostly brought to the table a design that responded to known concerns. First and foremost the plan went to great lengths to lower the building mass near the residential starting at one story, and then to three stories before the eventual five story building structure. The three-story portion was pulled back to approximate the residential setback complete with more robust plantings. This portion was designed to look like an individual townhome to create a transition to the neighborhood. Careful attention to this issue garnered the project written support from the neighborhood.

Relationships with city and other government staff matter.

The City of Minneapolis had adopted a new Comprehensive Plan and this project was one of the early projects that was evaluated. The project team worked with staff to find a project that met the development needs while still complying with new standards. The project is located within ½ mile of a rail line and if it had been 50 units or less there was no parking requirement. However, at 54 units it had a requirement of 27 stalls. To meet the desired market and keep units affordable the extra parking would have required an underground solution which was very inefficient. Losing 4 units also was problematic for the proforma. Thus the team worked with staff on a compromise to allow the parking variance. Part of the acceptance of the variance was the development has enhanced bike parking and facilities, and the team was able to articulate many other areas where the project was in alignment with the new comprehensive plan.

Security. Providing units on the street near the residential neighborhood allowed for direct 'eyes on the street'. Careful consideration was given to providing doorways and access closer to the well-lit intersection.

SOURCES & USES / FLOW OF FUNDS

Sources	Permanent	Per Unit	% TDC
Debt	7,880,000	145,926	75.9%
Developer Equity	2,500,000	46,296	24.1%
Total sources	**10,380,000**	**192,222**	**100.0%**
Uses			
Land	598,350	11,081	5.8%
Hard & Site Costs	7,522,524	139,306	72.5%
Developer Fee	650,000	12,037	6.3%
Soft Costs	853,682	15,809	8.2%
Interest	275,000	5,093	2.6%
Contingency	480,444	8,896	4.6%
Total Uses	**10,380,000**	**192,222**	**100.0%**

PROJECT PHOTOS

Project amenity: community room.

Project amenity: community room.

Project amenity: fitness center.

Project amenity: community room.

Typical kitchen, open to the living room with floor to ceiling windows allowing natural light to infiltrate the unit

Typical bedroom.

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CASE STUDY
POCKET PROPERTIES

Project Summary

The Pocket Properties project at 3329 Nicollet is a 12-unit multifamily rental apartment development located in Minneapolis, in what is known as the Lyndale neighborhood. Completed in 2020, the development includes six townhomes which are all 3 Bed/3 Bath and six apartments comprised of a combination of 1 Bed/1 Bath and 2 Bed/1 Bath units.

All glass garage doors were used to allow natural light into the ground level of the townhome units. This, in addition to the fact that the space is fully finished allows for residents to use the space as parking or as a studio/maker space. The slab on grade construction, no precast concrete, and use of verticality in the townhome units allowed for lower construction costs and higher density. These savings trickled down to the residents as the costs for comparable new construction units of this size are 10-20% more expensive on other projects.

The diverse unit type allowed for no single 'target market'. The product appeals to singles, couples, roommates, and families.

Rent ranges for the various unit types are as follows:

Rents	
Type	**Rent**
1 Bed Apt	$1,300
2 Bed Apt	$1,600
3 Bed Townhome	$2,450

Key Innovations

This property was land owned by the City of Minneapolis. Although this made the entitlement process considerably longer than a traditional development, Pocket Properties was able to purchase the land for less than market rate. The lower land costs in addition to the fact that the development was slab on grade, used no precast concrete podiums and only provided parking to the townhomes allowed for Pocket Properties to keep the development costs down and pass those savings on to the residents. The interior and exterior materials chosen were of higher quality and were selected specifically for their longevity. The design elements chosen were intended to be as neutral as possible to stand the test of time and not allow the development to look as though it was built for a specific period in time.

QUICK FACTS

Location
Minneapolis, MN

Site size
0.258 acres

Project Address
3329 Nicollet Ave
Minneapolis, MN

Developer
Pocket Properties

Established in 2016, Pocket Properties focuses on infill, high transportation corridors within Minneapolis and St. Paul, MN. Typical project size is $5 million. Pocket Properties attempts to find unique development opportunities that are either too large for traditional single-family homebuilders and too small for larger development corporations.

General Contractor
Frerichs
3600 Labore Road #8
St. Paul, MN 5510

Architect
Kaas Wilson Architects
1301 American Blvd East
Bloomington, MN 55425

Design Features

Exterior

- All exterior materials were either metal or cementitious (no to low maintenance)
- Glass garage doors
- All townhome units have a balconies

Interior

Unit/Project amenities

- Stainless steel appliances
- Quartz counters
- Floor to ceiling tile in bathrooms
- Long lasting LVT flooring everywhere aside from stairwells and bathrooms
- High efficiency forced air furnace and A/C condensers (townhomes); MagicPaks for apartments
- All units have in unit washers and dryers

Common areas are minimal, including a single stairwell in each building that provides access to the three traditional apartments. Aside from the obvious cost savings that low to no amenity projects allow, in urban infill areas, the city itself provides enough amenities and allows for residents to be more engaged in the community.

Site Challenges

Tight site. Mobilization was more challenging.

Lessons Learned

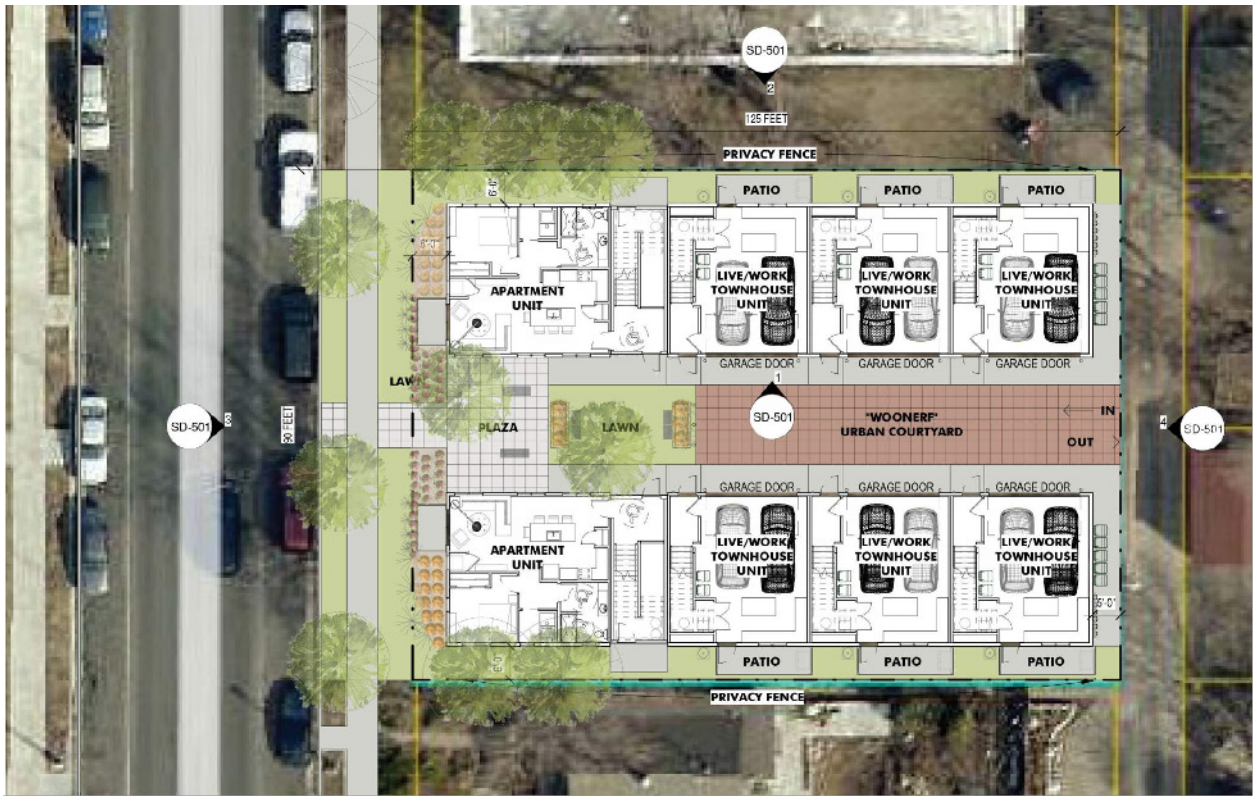
Bedroom and Bathroom types. If the site would have allowed, we would have enlarged the bedroom dimensions in the townhomes.

Exterior. Given the tight site, consideration would be given to heated driveways and sidewalks to aid in snow removal, as this has proven more difficult on such a small site.

SOURCES & USES / FLOW OF FUNDS

Sources		Per Unit	% TDC
Merchants Bank Construction Loan	2,400,000	200,000	80.00%
Developer Equity	600,000	50,000	20.00%
Total sources	**3,000,000**	**250,000**	**100.0%**

Uses			
Land & Site Work	56,200	4,684	1.9%
Hard Costs	2,752,372	229,364	91.7%
Soft Costs	191,428	15,952	6.4%
Total Uses	**3,000,000**	**250,000**	**100.00%**



12-unit new construction development in Minneapolis, MN developed by Pocket Properties. Development includes 6 townhomes and 6 apartment units. Two garage spaces for townhomes; no parking for apartments. Total development costs $3 million or $250,000/unit.

Typical kitchen with quartz countertops and island, open to the living room.

Bathroom with floor to ceiling tile.

In-unit washer and dryer in all units (townhome pictured).

Balcony off living room, included in all units (ground floor units have patios).

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CASE STUDY
TECHNOLOGY PARK

Project Summary

Technology Park is a 164-unit multifamily rental apartment development located on the north side of Rochester, MN. Technology Park piloted several innovative design, materials and financing approaches to deliver housing quality and affordability without direct government subsidies. The project delivers first class in-unit finishes and features attractive to market rate renters while keeping the costs of construction and operations lower through trade-offs including smaller scale common area amenities and surface parking as opposed to underground parking.

Key Innovations

Creation of New Affordable Housing with No Subsidy

The project partners developed Technology Park with the goal of creating a replicable model to produce no-subsidy affordable housing. To achieve this goal, the project utilized a combination of design strategies, cost effective materials, low-cost land, a favorable local regulatory environment, low-cost debt and equity capital and long-term affordability agreements to achieve a 164-unit mixed income development that provides for 40% of the units to be affordable at 60% area median income, 35% of the units are affordable to households between 60% and 80% AMI, and 25% of the units have market rate rents.

Design Features

Simple exterior and interior building designs significantly contribute to cost savings but requires flexibility by local municipalities is required during the design approval process.

Exterior

- Minimized exterior articulations and bump outs and a simple flat roof design.
- Fiber cement siding & quality window systems are comparable to market rate.
- Limited penetrations and thus limited flashing at openings.
- Utilized contrasting materials to enhance appearance.
- Not all units had balconies.

QUICK FACTS

Location
Rochester, MN

Project address
3731/3745 Technology Drive NW
Rochester, MN 55901

Developer
Real Estate Equities
579 Selby Avenue
St. Paul, MN 55102

Co-Developer & General Contractor
Stencil Group
332 Minnesota Street, Suite W120
St. Paul, MN 55101

Architect
Kaas Wilson Architects
1301 American Blvd East
Bloomington, MN 55425

Interior

- Minimally size lobby and entrance area.
- Smaller sized unit square footage:
  - Efficiency SF: 551
  - 1 BR SF: 661
  - 2 BR/1BA SF: 754
  - 2BR/2BA: 1,059
- Limited amenities:
  - Modest size community room.
  - Smaller fitness facility with limited equipment.
  - Minimal outdoor play facilities. The outdoor facilities were limited to grilling areas and seating, dog run, playground, and a fitness trail.
  - All units have in-unit washers and dryers.
  - Minimal common areas (halls, lobbies).

Lessons Learned

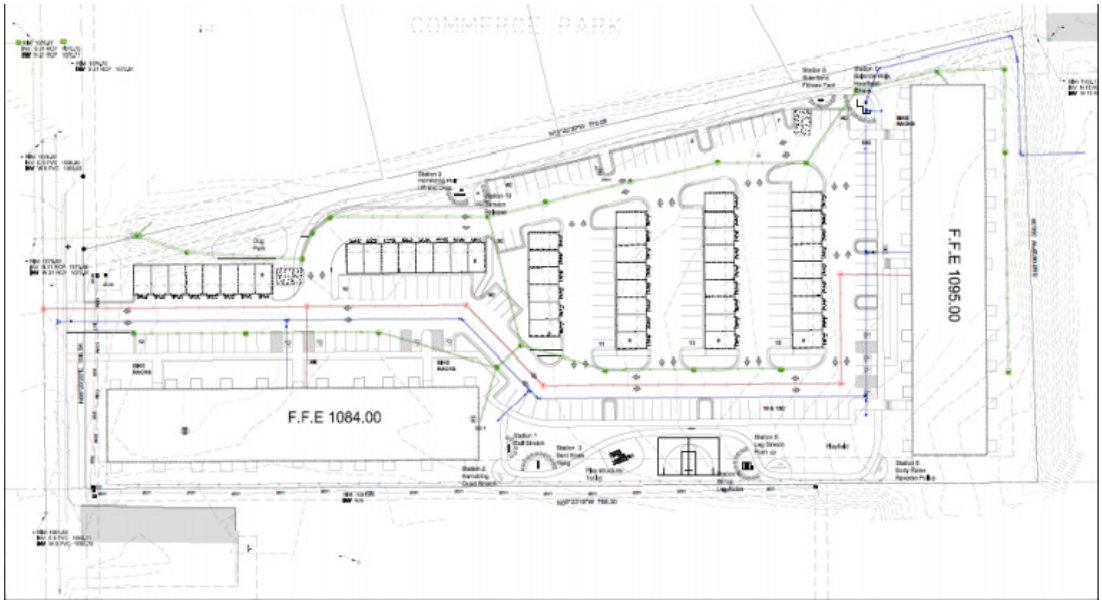
Bedroom and Bathroom types. Include more 1BR/1BA units. Eliminate the 2BR/1BA unit type given the lower demand for these units.

Exterior. Limit number of balconies. Include walk out patios, which are much more cost effective than the balconies on upper levels.

Amenities. The limited amenity menu allowed for reduced costs, but for future projects would increase size of the chosen amenity spaces.

Regulatory requirements. Flexible regulatory environment allowed for higher density and more surface and garage parking, which in turn allowed for reduced construction costs and lower rents charged. Many urban locations require a minimum ratio of underground parking spaces at $20,000 - $25,000 per stall, adding to total housing production costs per unit; whereas, surface parking runs about $3,000 per stall, and ground level garages run approximately $10,000 per stall.

Social equity capital. The lower cost of capital in exchange for the affordable units made this type of project feasible and scalable. This type of project and affordability would not be able to achieve traditional equity investor return requirements.



SOURCES & USES / FLOW OF FUNDS

Sources	Construction	Permanent	Per Unit	% TDC
Merchants Bank Construction Loan	14,966,000			
Permanent Loan - Freddie Mac		14,966,000	91,256	76.00%
GMHF Construction Loan	3,400,000			
GMHF Equity		3,400,000	20,732	17.30%
Developer Equity	1,327,598	1,327,598	8,095	6.70%
Total sources	**19,693,598**	**19,693,598**	**120,083**	**100.00%**
Uses				
Land & Site Work	1,115,185	1,115,185	6,800	5.70%
Hard Costs	14,734,082	14,734,082	89,842	74.80%
Soft Costs	1,372,472	1,372,472	8,369	7.00%
Developer Fee	1,000,000	1,000,000	6,098	5.10%
Financing & Legal Fees	367,947	367,947	2,244	1.90%
Interest & Reserves	968,822	968,822	5,907	4.90%
Contingency	70,728	70,728	431	0.40%
Reserves	64,362	64,362	392	0.30%
Total Uses	**19,693,598**	**19,693,598**	**120,083**	**100.00%**

Construction Related Variables	Traditional Multifamily	Value Engineered	Cost Differential (per unit)	Notes
Scale	50-120 units	164 units	$1,500-$3,000	discounts for higher volume
Labor & Negotiated Bidding	$8,000-$12,000 (per unit)	$1,000-$4,000 (per unit)	$4,000-$11,000	
Parking	$20,000-$30,000 (per unit)	$8,000-$10,000 (limited garages)	$10,000-$17,000	standard assumption is underground parking
Building Design	$120,000 - $150,000 (per unit)	$100,000-$110,000 (per unit)	$15,000-$50,000	
Limited Amenities	$350,000-$650,000	$150,000-$200,000	$1,000 - $3,000 *	* assumes project size of 164
Mechanical	$8,000-$10,000 (per unit)	$2,000-$3,000 (per unit)	$5,000-$8,000	PTAC vs. Magic Pak

164-unit new construction development in Rochester, MN developed by Real Estate Equities. No subsidy affordable housing achieved through smart building design and innovative financings. Total development costs $19.7 million or $120,000/unit. Affordability: 40% units @ 60% AMI; 35% units @ 80% AMI.

Project amenity: community room and mailroom.

Typical kitchen with granite countertops and island, open to the living room.

Bathroom with granite countertops.

Bedroom with attached bathroom and walk-in closet.

In-unit washer and dryer.

Garages for the units.

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