THE MN CHALLENGE
To Lower the Cost of Affordable Housing

WHAT CAN COMMUNITIES DO TO INCREASE THEIR MIX OF HOUSING? **A LOT.**

Actions Local Officials Can Take to Achieve a Full Range of Housing Choices.

DESIGN FOR SUCCESS.

The density of a project can be a challenge or an opportunity. Developments that are too large can raise legitimate issues. But density that is too low results in higher per unit construction costs. That may make the development unbuildable or, if it's built, unaffordable for many potential residents. Too-low density also can leave less money for creative and engaging architectural design and the amenities – including green space – that can make a development more attractive to everyone. A smaller development also may lack the resources after it is completed to support on-site, high-quality property management.

PARTNERING FOR SUCCESS.

The economics of providing a mix of housing options requires strong leadership and partnerships between the public and private sectors. While state and federal resources often are critical to the economics of affordable housing projects, many times the difference-maker in whether a project is built or not is the partnership and leadership of local elected officials. Especially important is the willingness of communities to use the tools available to keep projects affordable, including these:

- Tax increment financing, real estate tax reduction, general obligation or revenue bonds, and use of levy authority, can reduce development costs and leverage additional state and federal resources.

- Some local resources can be provided at relatively little cost to a community, including things like issuance of housing revenue bonds in connection with 4 percent credits or making greater use of HRAs which bring the advantage of lower taxes.

- Fees charged by local governments for permits, inspections and administration can easily add $20,000 to $30,000 per unit. Opposition to fee waivers often comes from city departments charged with collecting the fees. City leadership is needed to negotiate inter-departmental friction and find creative solutions. For example, one community deferred a $150,000 park dedication fee for 20 years with the developer making a present value payment of $68,000.

Medina Opposition Adds 40% to Unit Cost

A proposed townhouse project initially was welcomed by city leaders as a welcome addition to the community's mix of housing choices. But as community opposition grew, city support eroded. Offers to waive fees and rezone the site to allow 32 units were withdrawn. Opposing residents weren't able to stop the development, but the developer could only build the 26 units allowed under existing zoning. **Per unit costs rose nearly 40% per unit, going from $216,043 to $301,962.**

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The MN Challenge to Lower the Cost of Affordable Housing is an ideas competition. Its goal is to be a catalyst for innovative problem-solving, bringing together teams of the most knowledgeable housing professionals to propose ideas that could reduce the cost of creating or preserving affordable housing. This report is one of several products sharing ideas that can advance the mix of housing choices available in communities throughout MN.

PROACTIVE POLICIES.

Forward-thinking policies and planning bring predictability to current residents, giving them a good picture of how their community will grow and why a mix of housing is important.

- **Site Acquisition:** Finding and acquiring sites for new developments is one of the most difficult, time consuming and expensive tasks developers undertake. Communities can take the lead by identifying and zoning appropriate sites, making city owned land available and even acquiring sites for future housing.

- **Right-Sized Parking:** Parking (especially parking structures) is expensive. Developers and city staff can find creative solutions to assure adequate on-site parking while reducing costs. For example, identifying and acquiring sites near future transit developments can mean fewer cars and less need for parking. A New Hope development reduced parking requirements and created more green space. The green space enhances the project's aesthetics and is the assurance that if more parking is needed, space is available.

- **Review and Approval Process:** A streamlined and predictable review and approval process is important. Some effective strategies: a clear commitment by the city to the importance and location of affordable housing; meetings between developers, approving authorities and all city departments to review plans and identify potential problem areas early in the process; early meetings with residents; and, clarity on the ground rules for input from residents and public officials, especially on site plan reviews.

ONE SIZE DOESN'T FIT ALL.

- Communities that are attractive to market-rate developers can use inclusionary policies to leverage their market position to promote mixed income housing. Forest Lake, for example, provides a 15% density bonus, partial fee waivers and flexible parking requirements in return for developers providing affordable units. While these kind of incentives can be effective, the evidence is that mandatory inclusionary policies are more effective in producing affordable housing. Mixed income projects are best achieved through inclusionary housing policies that incorporate affordable units into market-rate developments.

- Many communities have successful all-affordable developments. There is no reason for communities to insist that affordable housing always be incorporated into mixed-income developments. Trying to add market-rate units to affordable housing projects is complicated and complex for developers and their financing sources.

- Quality and affordability come in all styles these days. Manufactured and modular housing is more attractive than ever and can be a welcome aesthetic fit in many communities.

- Regulatory flexibility on materials, site and design requirements can be achieved without compromising quality or livability.

CREATING A FULL RANGE OF HOUSING CHOICES IS A COMMUNITY-WIDE ISSUE.

A 2009 survey found that as many as 53% of Minnesotans are advocates or "quiet supporters" of affordable housing. Yet, often discussion is dominated by a handful of residents who oppose specific projects. Communities can change that dynamic. First, elected leaders need to set clear policies and goals supporting a mix of housing. Educating the community on why a mix of housing strengthens the entire community is important. Second, be transparent. Engage the entire community early in the process when specific projects are being considered. Showing examples of similar housing in nearby communities reinforces the quality of the developments and on-going management. Third, listen to what residents have to say. There are concerns that can be addressed with creative design and other strategies.

Working Together: Woodbury's Example

Woodbury's 2030 Comprehensive Plan is a good example of how a city's commitment to affordable housing creates predictability for current residents and developers. Among the tactics cited in the Comp Plan are these examples:

- **Density Bonuses:**
  "Through the planned unit development process, the City has been able to encourage developers to set aside a portion of their property for...more affordable housing."

- **Site identification and Acquisition:**
  "The City has taken a proactive approach in identifying sites for affordable housing and using funds to purchase and secure these sites."

- **Waiving City Fees:**
  "The City has waived City fees...to help reduce the development and construction costs of affordable housing on a case by case basis."

WANT TO KNOW MORE?

Go to **www.MnChallenge.com** to learn about the MN Challenge and to read the complete report.

The Urban Land Institute-Minnesota offers a housing toolbox for communities, providing more details on the best practices list here and other strategies: **www.minnesota.uli.org/initiatives/housing/tool-box/**