



# THE MN CHALLENGE

To Lower the Cost of Affordable Housing



## DEVELOPMENT FROM THE PERSPECTIVE OF DEVELOPERS: QUESTIONS AND ANSWERS WITH LEADING MINNESOTA HOUSING DEVELOPERS

### Q: WHAT IS THE HOUSING MARKETPLACE IN THE TWIN CITIES AREA FOR THE FORESEEABLE FUTURE?

**Huggett:** The housing market in the Twin Cities seems to be roaring back from the 2008 downturn, which exacerbates affordability issues at the bottom end of the market. Both land prices and cost of construction are increasing well above inflation. Housing is in demand at all levels of the market, but the lower end is always the hardest to accommodate because the costs involved need to be reduced to a level that is affordable to those with fewer resources.

**Clark:** Twenty or 30 years ago, everything was focused on family housing. More and more, communities are seeing the need for a mix of housing, including upscale, rental for seniors, young singles and families, and workforce housing. There is still a good mix of housing being built. Some communities are attracting market-rate developments, but some communities are coming straight to us and telling us they need a better mix of housing choices. For example, some communities have acquired properties that could be developed for affordable housing. These communities can plan for the future and let everyone know where housing is going and developers have a site ready to go. That's important. It might take a developer two-three years to acquire parcels from individual owners needed for a housing project. That ties up a lot of money for a long time – for the developer, the early property sellers and our financing partners. All of that adds to the cost and unpredictability of projects.

### Q: YOU WORK WITH A LOT OF COMMUNITIES. WHAT ARE SOME OF THE BIGGEST BARRIERS YOU ENCOUNTER?

**Huggett:** Political and economic conditions at every level are creating an environment that builds demand for affordable housing without the adequate support measures in place. But first and foremost, it's a lack of a political will on the local level that prevents development from happening.

**Waldo:** Assuming that the community has the desire and knowledge to make a development happen and strong political leadership from the mayor and the council, there are still barriers, including opposition from nearby residents who don't want change and may have a misunderstanding about what the development will look like and who the residents will be.

**Clark:** We are able to address those issues if communities are willing to look at our existing projects in other communities. When they see the quality of the developments, the expert property management and see that some of our developments have waiting lists of 700-800 people, they can share that with their residents. But if the community's leaders aren't committed to a project, then we have learned it is better to look elsewhere to develop.

### Q: COMMUNITIES ARE STARTING TO DEVELOP THEIR LONG-TERM COMPREHENSIVE PLANS DUE IN 2018. AS THEY THINK ABOUT HOUSING NEEDS, HOW CAN THEY PLAN TO BE MORE ATTRACTIVE TO DEVELOPERS?

**Clark:** It's especially important that communities zone their land correctly, that they identify where housing will go and the right density. We find that our projects work best in the mid-range, 60 or 70 units. We can build high-quality projects that are attractive to the community and residents and projects this size can support on-site management after the project is completed. Sites have to be zoned for that density. We don't want to take on zoning fights where a super-majority vote by the council may be needed to change zoning. *Continued on back.*

#### **Jeff Huggett**

Jeff is vice president of Dominion, one of the country's largest affordable housing development and management companies. Huggett's focus includes locating and completing new development, redevelopment and acquisition opportunities.

#### **Ron Clark & Mike Waldo**

Ron Clark is CEO and Mike Waldo is CFO of RonClark Construction and Design. The company provides a full range of development, design and construction services on single- and multi-family housing projects throughout the Twin Cities.

**Huggett:** The more planning communities can do in advance, the better the result. Identify potential sites for affordable housing and line up financial support. Think about the highest quality the community can afford and that will likely translate into a strong long-term asset for the community.

**Waldo:** Communities can do a lot of the work in advance to make both their job and the developer's job easier. With financing options like reduced fees or deferred loans and proper zoning already in place, community opposition has a harder time taking hold. Developers can come in and get right to work.

**Q: ARE THERE OPPORTUNITIES FOR COMMUNITIES TO RETHINK CONVENTIONAL PRACTICES REGARDING HOUSING?**

**Waldo:** One example where conventional thinking could be reexamined is parking requirements. Locating housing developments near transit reduces the need for per-unit parking requirements, increases tenant involvement in the community and cuts costs for developers. At a recent development in New Hope, we worked with the city to allocate fewer parking spaces to create more green space. The green space is an important amenity for the entire community and assures everyone that if more parking is needed, the space is available.

**Huggett:** There's no one-size-fits-all solution to affordable housing. There are pros and cons to every option, it's up to city officials and the developer to work together and find the solution that meets the needs of their community.

**Q: WHAT ARE SOME CREATIVE TOOLS YOU'VE SEEN FOR NEW WAYS DEVELOPERS AND COMMUNITIES CAN WORK TOGETHER TO SUPPORT A BROADER MIX OF HOUSING CHOICES?**

**Huggett:** There are four common themes in a community that lead to successful development: First, clear policy goals; second, political will to support affordable housing; third, strong, sophisticated city staff who understand the economics of development; and, fourth, a culture of partnership between developer and city. These partnerships find ways to overcome neighborhood opposition and attract outside resources to pay costs of quality development. Some tools that communities have used in the past include TIF, fee waivers, CDBG Funds, HOME funds, Local/Federal rent assistance and bargain land sales.

**Clark:** Plymouth is an example of a community that has a pre-determined list of city contributions, including reduced fees. That makes a lot of sense. It makes it more predictable for the community and for the developer.

**Q: ARE COMMUNITIES INFLUENCING THE DECISIONS FINANCING PARTNERS/INVESTORS MAKE ON WHERE TO BUILD?**

**Clark:** As developers, we have to make the numbers work. Tax credits are helpful, but fees are a big part of our overhead cost. Outlying suburbs that are still establishing community facilities have higher fees, making it harder to successfully build. Communities should be aware of that and be prepared with other options including non-profit grants.

**Huggett:** Lenders and investors would rather invest in larger, single-income projects versus smaller and multi-income developments due to efficiency in underwriting projects and getting investment and loan dollars out the door. Certainty of execution is the critical factor for both developers and investors. The more planning a city can do up front for development of affordable housing (i.e. zoned land, financial and political support), the more likely the community is to receive the investment.

**Q: OFTEN, CURRENT RESIDENTS OF A COMMUNITY RAISE CONCERNS ABOUT THE IMPACT AFFORDABLE HOUSING HAS ON THE CHARACTER, SAFETY AND HOME VALUES OF THE COMMUNITY. WHAT'S YOUR EXPERIENCE?**

**Huggett:** People are afraid of what they don't know and often realize that their fears were overblown. Our company often comes in to take over troubled properties – which often fail due to inattentive management. Strong operators with solid development plans almost never run into these issues. Well-executed affordable housing developments are indistinguishable from nicer market rate offerings and become long-term assets to a community.

**Waldo:** Every level of housing has issues. It all comes down to strong management. At a development in Savage, for example... because of the high-demand, managers and developers can screen for the desired tenants.

**Q: WHAT ARE SOME OF THE MOST EFFECTIVE STEPS COMMUNITY LEADERS CAN DO TO ENGAGE THEIR RESIDENTS IN UNDERSTANDING AND SUPPORTING THE IMPORTANCE OF A GOOD MIX OF HOUSING?**

**Huggett:** Start engaging residents early, because education takes a long time. Ask residents of other affordable housing communities to speak at meetings. It can be intimidating, but having a spokesperson there humanizes the discussion and reduces the fear of "those people." Engage city council members and other elected officials to tour affordable housing properties to show them what the community is getting for the public investment.

**Clark:** Engage the entire community early, not just the immediate neighbors. Looking at the project on a larger scale shows how the entire community will benefit.

