

MN Challenge to Lower the Cost of Affordable Housing
St. Paul, MN | January 28, 2014

Agenda

- Research process overview
- Cost drivers
- Recommended actions and specific examples
- Questions and answers
- Group discussion and report out

Initiative Overview and Update

- Collaboration w/ Terwilliger Center and Enterprise
- Phase I: Roundtables with over 150 key stakeholders in:
 - Chicago, Denver, Los Angeles, NYC, San Francisco
- Preliminary market research in 20+ cities
 - Site visit to Minneapolis and St. Paul
- Publications
 - Nov. 2013: *Bending the Cost Curve* Discussion Brief
 - Jan. 2014: *Bending the Cost Curve* Full Report
 - Additional case studies to follow

What are the common cost drivers for affordable housing preservation and development?

- Inability to develop at scale
- Barriers to cost effective project design & construction techniques
- Challenges in finance and underwriting
- Program and investor requirements
- State and local regulations and fees

What can be done to Bend the Cost Curve?

- Promote cost-effectiveness through consolidation, coordination and simplification
- Remove barriers to reducing construction costs and delays
- Facilitate a more efficient deal assembly and development timeline
- Improve and align incentives
- Improve the flexibility of existing sources of financing and create new financial products to better meet needs.
- Support the development and dissemination of information and best practices.

Promote cost-effectiveness through consolidation, coordination and simplification

- Coordinate and consolidate monitoring and due diligence activities
- Consolidate and coordinate competitive funding competitions
- Improve and coordinate codes, zoning and regulation
- Streamline HUD financing

Simplifying Layered Finance: MassDocs

- Unified loan-closing document system for secondary financing sources
- Led by the Massachusetts Housing Partnership
- Reduces legal costs associated with layered financing
- Building on the concept: Can ongoing due diligence be consolidated as well?



Remove barriers to reducing construction costs and delays

- Implement smart parking requirement
- Review unit size and amenity requirements
- Make rehabilitation easier
- Improve development team coordination
- Support innovative building techniques

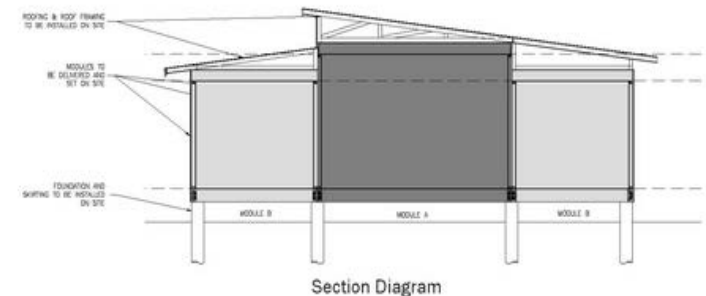
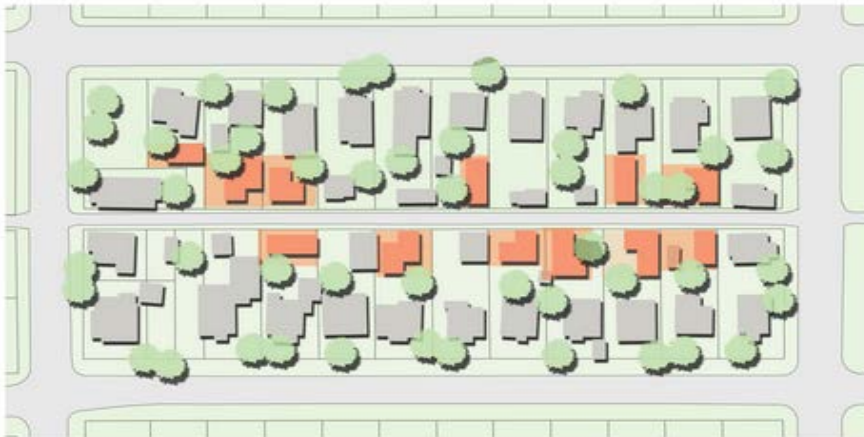
Innovation in Design: Prefabrication in Portland (ME)

- Winner – Enterprise/Deutsche Bank competition
- Prefabricated, 42 unit development built to ultra-low energy standards.
- Developing lifecycle underwriting tool.
- Shorter development timeline, lower construction costs, off-street parking eliminated



Innovation in Design: Accessory Dwelling Units in Austin (TX)

- Runner Up – Enterprise/Deutsche Bank Lowering Cost design competition
- Delivery system for small units in underutilized lots in urban core
- Model lowers construction costs, improves scale, increases supply



Facilitate a more efficient deal assembly and development timeline

- Eliminate zoning barriers to by-right housing development
- Create clarity and structure in the public engagement process
- Adopt state policies to streamline local development (MA 40B)
- Promote QAP consistency
- Adopt efficient deadlines for deal assembly and project development

Breaking Down Zoning Barriers: MA Chapter 40B Planning

- State statute allows certain developments with long-term affordable housing component to override certain zoning provisions
- Shortens development timeframe, allows for development at scale



Improve and align incentives

- Evaluate life-cycle cost considerations in the underwriting process
- Create incentives for green building and energy-efficient design
- Provide local incentives for affordable housing development
- Consider cost in the QAP process
- Consider the time frame in which costs are evaluated for the purpose of underwriting
- Remove perverse incentives that can increase costs

Public Land for Public Good: King County, WA

- Disposition process for public land includes preference for affordable housing.
- Subject to regulations governing source used to initially purchase property.
- Allows for certain properties to be sold for public good at less than fair market value.
- Overall affordability levels subject to negotiation, community needs.



Improve the flexibility of existing sources of financing and create new financial products to better meet needs.

- Explore entity-level financial products
- Facilitate investment in the acquisition of existing multifamily properties
- Facilitate financing for smaller deals
- Facilitate more efficient use of project reserves
- Provide greater flexibility in 4 percent LIHTC investments

Freeing up Funds: Massachusetts Housing Reserve Assurance Program

- Credit facility allows developers to lower the amount of funds tied up in operating reserves
- Targeted toward non-profit developers of new Low-Income Housing Tax Credit developments with MHP first mortgage.
- Developer pays one-time, up-front premium for legal costs plus a fee based on overall risk.
- Savings per-development range from \$124,000 - \$256,000.
- Can model be adapted to apply to existing developments?



Support the development and dissemination of information and best practices.

- Create a competition to support innovative practice
- Determine appropriate units of measurement and comparison
- Build a community of practice
- Create a forum for sharing data and best practices

Bending the Cost Curve: Solutions to Expand the Supply of Affordable Rentals

Questions?

Discussion: How can best practices be applied in the Minnesota context?

- Simplifying Layered Finance: MassDocs
- Innovation in Design: Prefabrication in Portland (ME)
- Innovation in Design: Accessory Dwelling Units in Austin (TX)
- Breaking Down Zoning Barriers: MA Chapter 40B Planning
- Public Land for Public Good: King County, WA
- Freeing up Funds: Massachusetts Housing Reserve Assurance Program

Stay Connected

Mike Spotts

Senior Policy Analyst

Enterprise Community Partners

202-649-3902

mspotts@enterprisecommunity.org

Molly Simpson

Program Manager

ULI Terwilliger Center for Housing

202-624-7138

molly.simpson@uli.org

For more information:

<http://www.uli.org/research/centers-initiatives/terwilliger-center-for-housing/research/cost-of-rental-housing/>



**Urban Land
Institute**

Terwilliger Center for Housing