



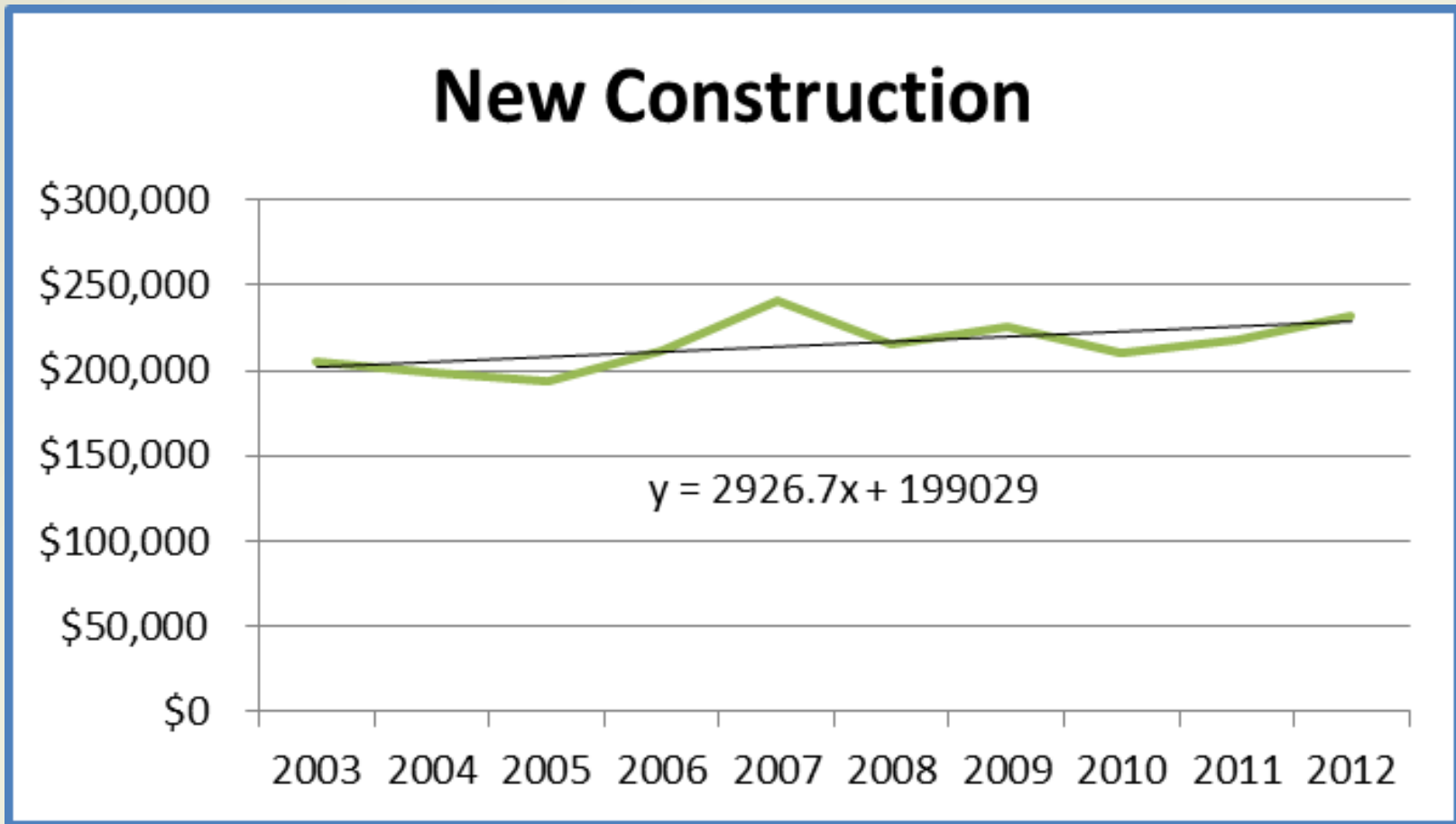
Lowering the Cost of Affordable Housing: MN Context

January 28, 2014

Our Mission:

Minnesota Housing finances affordable housing for low- and moderate-income households while fostering strong communities.

Minnesota's Cost Curve (adj. for inflation)



Cost Containment Efforts

Predictive Model – Cost Reasonableness

- Econometric regression model that predicts TDC per unit based on 18 project characteristics
- Uses data from projects that Minnesota Housing financed between 2003 and 2013 (costs adjusted for inflation)
- Also uses cost data from RSMeans as a benchmark
- Model is used to assess cost reasonableness of all tax credit, RFP, and pipeline applications

Cost Containment Efforts

LIHTC Scoring Criterion in 2014/15 QAP

- New with this QAP
- 4 points available to 50% of applications with lowest costs
 - Broken out by development type and location:
 - Metro – New Construction
 - Metro – Rehab
 - Greater MN – New Construction
 - Greater MN – Rehab
 - Includes unit size adjustments

Policy and Priority Context of Cost Containment Scoring

Criterion	Points	Criterion	Points
Supportive Housing for LTH	110/10	Intermediary (Soft) Costs	6
Preservation of Federally Assisted	40	Stabilization	5
Unacceptable Practices	-25	Workforce Housing Community	5
Rental Assistance	21	Economic Integration	5
Financial Readiness to Proceed	14	Minimizing Transportation Costs	5
Lowest Income / Rent Reduction	13	Cost Containment	4
Strategically Targeted Resources	12	High Speed Internet Access	1
Preservation of Existing LIHTC	10	Smoke Free Building	1
Federal/State/Other Contribution	10	QCT / Community Revitalization	1
Household Targeting	10	Eventual Tenant Ownership	1
Foreclosure	10		

Cost Containment Survey Overview

- Purpose – To learn more about:
 - The impact the cost containment criterion had on proposed costs and projects
 - Why developers made their cost containment decisions
 - Areas for improvement
- Survey Details:
 - 26 different developers submitted at least one regular LIHTC application
 - 26 surveys sent out
 - 12 responses

Cost Containment Survey

Lead Question

Did you pursue additional cost containment activities because of the new scoring criterion?

- Yes – 4 developers
 - 2% to 14% estimated savings
- No – 8 developers

Cost Containment Survey

Questions for “No” Developers

Why didn't you propose additional cost savings?

- Already pursued all viable options
- Additional reductions in upfront costs will increase life-cycle costs (ongoing maintenance and utilities)
- With 15-year tax credit guarantee need to keep property competitive for long period
- Need to keep additional cost savings options in the proposal in case costs increase and need to be reduced later

Cost Containment

Next Steps

- Need to address system-level changes and inefficiencies
- Not just project-specific savings
- Leverage work by Enterprise and ULI
- The outcome of “next step” discussions:

The MN Challenge

Cost Categories (2003-13; Adj. for Inflation)

Project Type				Sample Size	Avg. TDC Per Unit	Average Share of TDC		
						Acq	Constr	Soft
ALL				412	\$161,791	15.35%	65.03%	19.61%
ALL ACQ PROJECTS				284	\$186,825	20.95%	58.29%	20.77%
ACQ	NEW CON	LIHTC	METRO	70	\$237,308	8.24%	67.45%	24.31%
ACQ	NEW CON	NON LIHTC	METRO	18	\$202,842	10.16%	72.06%	17.78%
ACQ	NEW CON	LIHTC	GR. MN	45	\$186,321	4.99%	71.84%	23.17%
ACQ	NEW CON	NON LIHTC	GR. MN	25	\$183,501	6.58%	76.59%	16.83%
ACQ	REHAB	LIHTC	METRO	37	\$197,399	35.11%	41.15%	23.74%
ACQ	REHAB	NON LIHTC	METRO	39	\$123,891	41.43%	43.32%	15.26%
ACQ	REHAB	LIHTC	GR. MN	29	\$149,746	35.48%	43.15%	21.37%
ACQ	REHAB	NON LIHTC	GR. MN	21	\$117,403	42.37%	42.73%	14.89%

Potential Impact in MN

- MN Housing's November 2013 multifamily project selections:

Aggregate TDC = \$262 million

- Hypothetical cost reduction concept:
 - Reduces soft costs by 10%
 - Reduces TDC by 2%
- November 2013 savings = \$5.2 million
- Translates to:
 - 20 to 40 additional units each year
 - Additional development each year

Minnesota Housing's Multifamily Roadmap Project

- Enterprise/ULI Findings – Funder processes and timelines can be system-level cost drivers
- Minnesota Housing – reengineer its processes and timelines
 - More efficient system:
 - For the Agency
 - For our partners
 - Lower TDC per unit
- MN Challenge – Opportunity for partner input

Minnesota Housing Roadmap: Key Principles

- Make the most of every appropriated dollar
- Spend more time on what matters
- Improve access to information
- Optimize customer and partner experiences
- Be agile

Minnesota Housing

Analyzing the Multifamily Business

...from two perspectives

“Inside Out”

- Focused on internal processes and operational efficiency
- Dissecting Processes from Conceptual → Detail
- Pains, issues, concerns...

“Outside In”

- Focused on customer, partner relationship; external view
- Dissecting the “experience”
- Pains, issues, concerns...

Opportunities for Improvement!

Project Priorities

For More Information

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