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Upper Harbor Terminal Redevelopment Affordable Housing Frequently Asked Questions

7/31/18

1. **What is “affordable housing”?**

Housing is considered affordable if it costs no more than 30% of household income. For the purposes of this FAQ, the term “affordable housing” refers to rental housing that costs no more than 30% of household income for those at or below certain income levels. It should also be decent, safe, well-located, and well maintained and managed. Some affordable housing has been financially subsidized to reduce the rents so that they are affordable to people at specific income levels.

“Naturally occurring affordable housing” refers to existing housing units with fairly modest rent levels that many can afford, usually due to the housing unit’s age, condition and/or amenities, but that does NOT have subsidy or rent restrictions attached.

“Mixed-income” housing is a project that includes both: a) affordable units for which residents must meet certain income limits, and b) units that have higher rents (whatever the market will bear for a unit of that quality in that location) and for which the residents don’t need to meet income limits (these are the “market units”).

“Public housing” is housing that is owned and managed by the Minneapolis Public Housing Authority and that is affordable to those at even lower income levels.

2. **Why is subsidy needed to make housing affordable?**

Even in cases when the housing is modest and not built to luxury standards, it is expensive to build new housing or substantially rehabilitate an existing building. This is particularly true if there are special factors (such as the need for an expensive parking structure, environmental clean-up, etc.) that increase overall project costs. In today’s market, the rent that’s needed to repay these substantial project costs (as well as other ongoing operational expenses such as utilities, maintenance, taxes and insurance) is high enough that only people at higher income levels can afford them without subsidy.

3. **What rent levels are considered to be “affordable”?**

The industry standard is a rental amount that doesn’t require a household to pay more than 30% of income for rent. Paying more jeopardizes the household’s ability to have enough funds for food, transportation, child care, medical care, and other costs.

An important factor is how the household’s income compares to the median income for that community for a family of that size. Restrictions for affordable housing programs are usually tied to serving people at a specific percentage of the area median income.

As an example, the 2018 median annual four-person household income in the Twin Cities metro area is \$94,300. A family making that income can afford to pay \$28,290 per year in rent and stay at the 30% limit, or \$2,358 per month. A family making 50% of that median income can only afford to pay half of that rental amount, or \$1,179 per month. Adjustments also are made for family size. The City of Minneapolis' highest threshold for its affordable rental housing programs is 60% of the area median income, and in many cases is less than that.

Here are some sample incomes and related affordable rents:

Income level	One person	Family of four	Family of eight
Extremely low (30% of median)	\$19,830 annual income; can afford rent of \$496 per month	\$28,290 annual income; can afford rent of \$707 per month	\$37,350 annual income; can afford rent of \$934 per month
Very low (50% of median)	\$33,050 annual income; can afford rent of \$826 per month	\$47,150 annual income; can afford rent of \$1,179 per month	\$62,250 annual income; can afford rent of \$1,556 per month
Low (60% of median)	\$39,660 annual income; can afford rent of \$992 per month	\$56,580 annual income; can afford rent of \$1,415 per month	\$74,700 annual income; can afford rent of \$1,868 per month
Median	\$66,100 annual income; can afford rent of \$1,653 per month	\$94,300 annual income; can afford rent of \$2,358 per month	\$124,500 annual income; can afford rent of \$3,113 per month

4. Who “runs” affordable housing?

There is no one party that is responsible for affordable housing in Minneapolis. There are many nonprofit and for-profit housing developers that build, own and operate housing developments. Similarly, there are multiple private, governmental, and/or philanthropic entities that operate affordable housing funding programs (including those funded or administered by the City of Minneapolis).

5. What funding sources are available to make housing affordable?

There are a number of funding sources and programs available to make rental housing affordable. These include City of Minneapolis, Hennepin County, Metropolitan Council, State of Minnesota and federal funds, as well as foundation funds. Some of these programs are targeted to particular needs, e.g., housing for homeless people or seniors or located along transit lines. The typical affordable housing project needs more than one of these sources in order to cover project costs, sometimes as many as ten or more sources.

Each of these sources has its own requirements and limitations, including limits as to how much funding is available, what level of affordability is required and for how long, where the funds can be used, etc.

All of these funding sources are awarded through competitive processes, so even if a project is eligible for a particular program, it may not be selected for funding because that program's criteria rated other projects higher.

All funding programs require the housing to remain affordable for a particular time period. After that, the owner of the property may increase the rents to whatever level seems feasible in the marketplace. This not only reduces the number of affordable units in that area, but also could displace existing residents. Older units also are sometimes in need of substantial rehabilitation to continue to provide acceptable housing conditions. As a result, the preservation of existing affordable units nearing the end of this time period can be as important as the creation of new affordable units.

6. What is a “concentrated area,” and how does that concept affect which tools are available to make housing affordable?

A census tract is considered minority concentrated if has a minority population concentration of 50% or higher. It is considered poverty concentrated if it has a poverty concentration of 45.2% (double the City’s poverty rate) or higher. The North Minneapolis area in which the Upper Harbor Terminal site is located is minority concentrated.

Many affordable housing funding programs emphasize the preservation or rehabilitation of existing affordable units as a higher priority in concentrated areas than the construction of new affordable units.

7. Are there also funding sources or tools to make home ownership affordable?

There are some programs that help make lower-density ownership housing (e.g., a single-family home, duplex or quad home) affordable. This type of density is not expected on the UHT site.

There aren’t comparable programs to help make ownership of higher density multi-family housing (e.g., condominium apartments) affordable. Two options that can be explored are: a land trust (in which a nonprofit land trust organization owns the land and is able to somewhat reduce the cost of the unit by removing the land value from the price), and Habitat for Humanity has completed some units in multi-family buildings.

8. How might the above facts affect the ability to provide affordable housing on the Upper Harbor Terminal site?

Housing on the Upper Harbor Terminal site is expected to be medium density and to require structured parking as well as design and materials that complement the riverfront location. This will result in significant project costs. (The development team may explore using modular construction to reduce the overall cost.)

In order to make housing on the UHT site affordable, it likely will require significant public and/or philanthropic subsidy. These resources are highly competitive, and not all eligible projects receive funding. The UHT site also has challenges that may affect its eligibility for some (but not all) affordable housing funding sources. These include an existing rail line, overhead electrical transmission lines and lack of existing transit service.

The City of Minneapolis Unified Housing Policy can be found here:

http://www.minneapolismn.gov/cped/resources/reports/cped_affordable_housing_resolution