HOUSING DEEP DIVE - INTRO
CONCEPT PLAN - HOUSING STRATEGY

• Proposed vision includes a combination of market rate and affordable housing opportunities for community residents
• Phase 1 housing component will provide units affordable at 30%-60% of the Area Median Income (AMI)
• Concept plan aligns with Minneapolis Promise Zone goal of “Promoting stable housing”
• Innovative housing strategies (intergenerational multifamily housing) will be taken into consideration
• If sufficient, affordable housing funding resources are available
• Goal - 40% of the units to be affordable at least at 60% AMI
• Secure vouchers and additional funding for deeply affordable units at 30% AMI ($28,300 for a family of 4 in 2018 dollars)
• Partnerships with Minneapolis Public Housing Authority and/or housing nonprofit organizations will also be explored
HOUSING - WHAT DO WE KNOW?

Parcels: 3
Land Area: 6.3 acres
Potential Units: 400-600
Affordability: Mixed Income
Housing Mix: Mixed Unit Sizes
WHAT WE MUST CONSIDER...

- Existing Conditions Limitations (HUD restrictions)
  - Power lines
  - Railroad
  - Interstate
  - Land Use
- Future Conditions Limitations
  - Music venue
- Community Ownership
  - Need of a Nonprofit Entity
  - Education/Training
  - Nonprofit Partners
- Affordability
  - Subsidies
- Phasing
<table>
<thead>
<tr>
<th>MARKET RATE</th>
<th>“TRADITIONAL” AFFORDABLE</th>
<th>“COMMUNITY-OWNED” AFFORDABLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generate taxable value to pay for public improvements.</td>
<td>Use tools currently available (and available to everyone else). Municipal subsidies, low-income tax credits, etc.</td>
<td>Create a new model for affordability and wealth creation.</td>
</tr>
</tbody>
</table>
Common Terms

DEFINITIONS

**Area Median Income (AMI):** The median family income in the metropolitan or nonmetropolitan area

**Extremely Low Income (ELI):** Households with income at or below the Poverty Guideline or 30% of AMI, whichever is higher

**Very Low Income (VLI):** Households with income between 31% and 50% of AMI

**Low Income (LI):** Households with income between 51% and 80% of AMI

**Middle Income (MI):** Households with income between 81% and 100% of AMI

**Above Median Income:** Households with income above 100% of AMI

**Cost Burden:** Spending more than 30% of household income on housing costs

**Severe Cost Burden:** Spending more than 50% of household income on housing costs
### Market Rate Rents

Source: Minneapolis Trends, 4th Quarter 2017

<table>
<thead>
<tr>
<th>Area in Minneapolis</th>
<th>Average Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Downtown</td>
<td>$1,644</td>
</tr>
<tr>
<td>Southwest</td>
<td>$1,239</td>
</tr>
<tr>
<td>North</td>
<td>$961</td>
</tr>
<tr>
<td>South</td>
<td>$992</td>
</tr>
<tr>
<td>East</td>
<td>$937</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Unit Type</th>
<th>Average Rent in Mpls</th>
<th>Vacancy Rate in Mpls</th>
</tr>
</thead>
<tbody>
<tr>
<td>Studio</td>
<td>$958</td>
<td>1.8%</td>
</tr>
<tr>
<td>One-bedroom</td>
<td>$1,178</td>
<td>2.2%</td>
</tr>
<tr>
<td>Two-bedroom</td>
<td>$1,729</td>
<td>2.6%</td>
</tr>
<tr>
<td>Three-bedroom</td>
<td>$1,885</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Minneapolis</th>
<th>Metro Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Rent</td>
<td>$1,371</td>
</tr>
<tr>
<td>Vacancy Rate</td>
<td>2.2%</td>
</tr>
</tbody>
</table>
## Affordable Rents & Income Levels

Source: Hennepin County Low Income Housing Tax Credit Rent Limits

<table>
<thead>
<tr>
<th>Unit Type</th>
<th>Average Rent in Mpls</th>
<th>60% of AMI Rent Limit</th>
<th>50% of AMI Rent Limit</th>
<th>30% of AMI Rent Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Studio</td>
<td>$958</td>
<td>$991</td>
<td>$826</td>
<td>$495</td>
</tr>
<tr>
<td>One-bedroom</td>
<td>$1,178</td>
<td>$1,062</td>
<td>$885</td>
<td>$531</td>
</tr>
<tr>
<td>Two-bedroom</td>
<td>$1,729</td>
<td>$1,273</td>
<td>$1,061</td>
<td>$636</td>
</tr>
<tr>
<td>Three-bedroom</td>
<td>$1,885</td>
<td>$1,471</td>
<td>$1,226</td>
<td>$735</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Household Size</th>
<th>Area Median Income</th>
<th>60% of AMI</th>
<th>50% of AMI</th>
<th>30% of AMI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Person</td>
<td>$66,100</td>
<td>$39,660</td>
<td>$33,050</td>
<td>$19,830</td>
</tr>
<tr>
<td>2 People</td>
<td>$75,500</td>
<td>$45,390</td>
<td>$37,750</td>
<td>$22,650</td>
</tr>
<tr>
<td>3 People</td>
<td>$84,900</td>
<td>$50,940</td>
<td>$42,450</td>
<td>$25,470</td>
</tr>
<tr>
<td>4 People</td>
<td>$94,300</td>
<td>$56,580</td>
<td>$47,150</td>
<td>$28,290</td>
</tr>
</tbody>
</table>
The cost of affordable housing: Does it pencil out?

There is not enough affordable housing in the United States.

For every 100 extremely low income households, there are only 29 adequate, affordable, and available rental units.

That means two parents who both work minimum-wage jobs might wait years to find a safe, affordable place to live with their two kids.

With such high demand, why aren’t developers racing to build affordable apartments?
Investors (equity) have choices...

<table>
<thead>
<tr>
<th></th>
<th>STOCKS</th>
<th>REAL ESTATE</th>
<th>BONDS</th>
<th>CASH/SAVINGS</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Cash Return</td>
<td>-</td>
<td>✓</td>
<td>-</td>
<td>×</td>
</tr>
<tr>
<td>Equity Build Up</td>
<td>✓</td>
<td>✓</td>
<td>×</td>
<td>×</td>
</tr>
<tr>
<td>Leverage</td>
<td>-</td>
<td>✓</td>
<td>×</td>
<td>×</td>
</tr>
<tr>
<td>Hard Asset</td>
<td>×</td>
<td>✓</td>
<td>×</td>
<td>×</td>
</tr>
<tr>
<td>Tax Advantage</td>
<td>×</td>
<td>✓</td>
<td>-</td>
<td>×</td>
</tr>
</tbody>
</table>
Investors (equity) have choices...

<table>
<thead>
<tr>
<th>Type</th>
<th>Annual Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suburban Office</td>
<td>$78,000</td>
</tr>
<tr>
<td>Retail</td>
<td>$72,000</td>
</tr>
<tr>
<td>Downtown Office</td>
<td>$59,000</td>
</tr>
<tr>
<td>Multi-Family</td>
<td>$58,000</td>
</tr>
<tr>
<td>DOW 30</td>
<td>$29,000</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>$21,000</td>
</tr>
<tr>
<td>AAA Bond</td>
<td>$19,100</td>
</tr>
<tr>
<td>US Treasury</td>
<td>$18,500</td>
</tr>
</tbody>
</table>

*REAL ESTATE CAP RATES*

*STOCK DIVIDENDS*

*BOND YIELDS*
Market Rate Project Financing

Typical development cost of 100 unit project is approximately $23,000,000.

Average monthly rent of $1,750 supports a mortgage between $17,000,000 and $19,000,000.

Developer’s Perspective
The renters in this project pay me enough money to pay all the bills, my mortgage PLUS enough extra to reward myself for putting my time, expertise and $4.6 million at risk.
Feasible projects are good!

Tenants Pay Rent
Tenants pay rent, usually monthly. Revenue can also come from parking, signage, etc.

Building Expenses are Paid
The real estate operator/property manager pays building expenses from the rental income.

Investors are Paid
After the expenses are paid, the remaining income is distributed to investors.
The cost of affordable housing: Does it pencil out?

• Building “affordable” housing is not particularly “affordable.”

• There is often a huge gap between what these buildings cost to construct, operate and maintain and the rents people can pay to live in the building.

• Without the help of subsidies for creating, preserving, and operating affordable apartments, building these homes is often impossible.
Affordable Housing Project Financing (at 60% AMI Rents)

Typical development cost of 100 unit project is approximately $23,000,000.

Average monthly rent of $1,170 supports a mortgage between $10,000,000 and $11,500,000.
Why is there a gap?

• Development costs a lot of money. Developers rely on loans and other sources to fund construction before people move in and start paying rent.
• But developers can only get those loans and equity sources if the development will produce enough revenue to pay back the loans and pay returns to investors.
• The gap between the amount a building is expected to produce (rent I can charge) from rents and the amount developers will need to pay lenders (mortgage) and investors (risk/return yield) can stop affordable housing development before it even begins.
Affordable Housing Project Financing (at 50% AMI Rents)

Typical development cost of 100 unit project is approximately $23,000,000.

Average monthly rent of $975 supports a mortgage between $7,000,000 and $8,500,000.

Developer’s Perspective
The renters in this project pay enough money to pay all the bills, and a smaller loan, but nothing remains to reward myself for putting my time, expertise and millions at risk.
Why is there a gap?

The problem is even more difficult when you consider the poorest residents. In many places, the rent the poorest families can pay is too little to cover the costs of operating an apartment building, even if developers could build that building for free.
Affordable Housing Project Financing (at 30% AMI Rents)

Typical development cost of 100 unit project is approximately $23,000,000.

Average monthly rent of $636 supports no mortgage and requires additional monthly subsidy to cover the operational costs of the building.
Why is it so expensive?

• What drives the cost?
  • Land Cost – 10-20% of total
  • Hard Costs (Construction) – 60-70% of total
  • Soft Costs (Fees) 20-30% of total

• To make rents affordable, you must charge less. The less you charge, the less you make, and everyone (not just developers) has a breaking point when the upside no longer outweighs the risks or investment.
“Traditional Affordable” Project Example

The Project & Economics

Units: 248
70% AMI: 198
50% AMI: 50

Rent:
70% AMI: $1.67 PSF ($1,460/mo.)
50% AMI: $1.33 PSF ($845/mo.)

Net Operating Income: $2.4MI
*What remains after rent is paid by residents, operating expenses and taxes are paid by landlord

Required Investment Yield: 7.00%
*What developer and investor require to invest equity
Cost Supported: $34MI
Actual Cost of Project: $49.8MI

Subsidy Required: $15.8MI

The Financing Gap & Options to Fill

City/HRA: $7MI [land write-down, forgivable loans]
County: $400,000 [grant]
MetCouncil: $1.4MI [grant]
Total Cash Subsidies: $8.8MI
*We’re still $7MI short!

City TIF Note: $7MI (or $500,000/year)
*Additional income boasts annual Net Operating Income...

Revised Net Operating Income: $2.9MI
Revised Cost (Net of Cash Subsidy): $41MI
Revised Investment Yield: 7.07%

We have a feasible project!
We have 50 new units of affordable housing!