



# ABOUT ULI MN

## MISSION

Urban Land Institute Minnesota engages public and private sector leaders to foster collaboration, share knowledge, and join in meaningful strategic action.

## VISION

Thriving communities.



# REGIONAL COUNCIL OF MAYORS

Minneapolis, Saint Paul and 56 other municipalities, in the developed and developing suburbs, are represented in the RCM.

*“The RCM provides a nonpartisan platform focused on **building civic trust** through relationships, inquiry, partnerships and action.”*

**FROM 8 MAYORS IN 2004...**



**TO 55 MAYORS IN 2018**



# ADVISORY SERVICES: IT'S ABOUT TRUST

More than 80 **cities** have completed ULI Minnesota workshops.



Trust is developed across public and private sectors.

"The workshops are opportunities for City officials to ask questions of real estate professionals in an environment where neither party has anything at risk. This is a new kind of civic space. The developers are neither seeking anything nor defending anything and City officials are not under any pressure. It allows for a spirit of inquiry and exploration that is too often not possible when both parties are advocating specific positions."

**ULI MN Governance Chair John Breiting**  
**Cushman & Wakefield/Northmarq**

# Agenda

- Summary of State, National and Local Trends
- For-Profit & Non-Profit Developer Perspectives
- What Cities Should Consider
- Discussion/Questions

# DEMOGRAPHICS

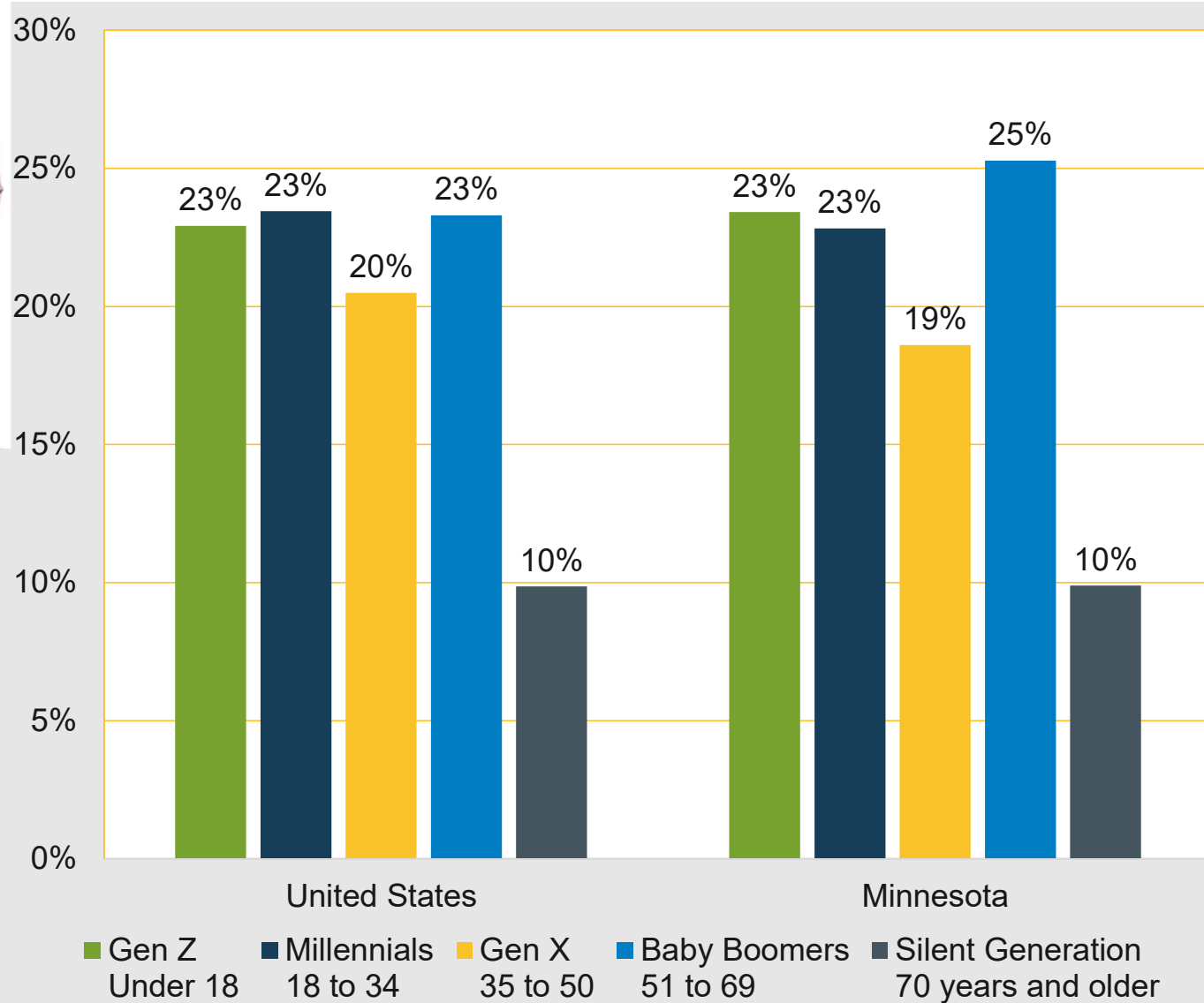
**GENERATIONAL SHIFTS**

**AGING POPULATION**

**CULTURAL DIVERSITY**



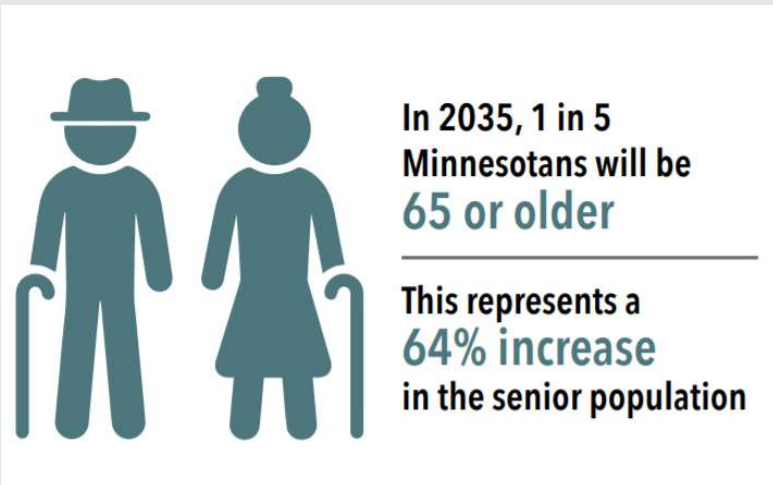
# MILLENNIALS AND BOOMERS COMPRISE 150 MILLION AMERICANS



US Census estimates &  
Minnesota State Demographic Center, August 2015



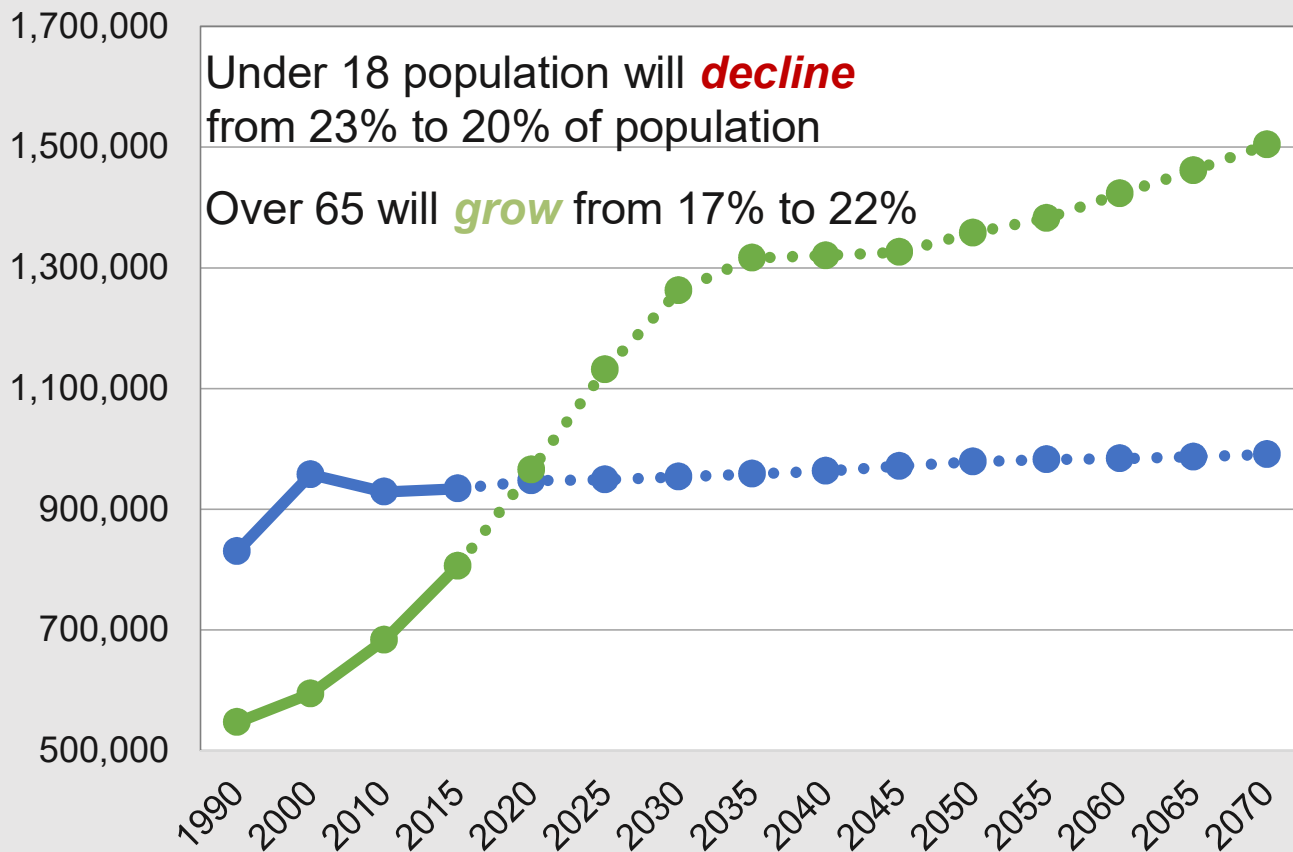
# MN'S OVER 65 POPULATION TO EXCEED SCHOOL-AGE BY 2020



*"These things usually creep along at the speed of a glacier. Not so with aging. **In demographic terms, this is a tsunami.** It doesn't get much bigger than this."*

**Thomas Gillaspay**  
**Former MN State Demographer**

## PROJECTED MN POPULATION: AGES 5–17 AND 65+

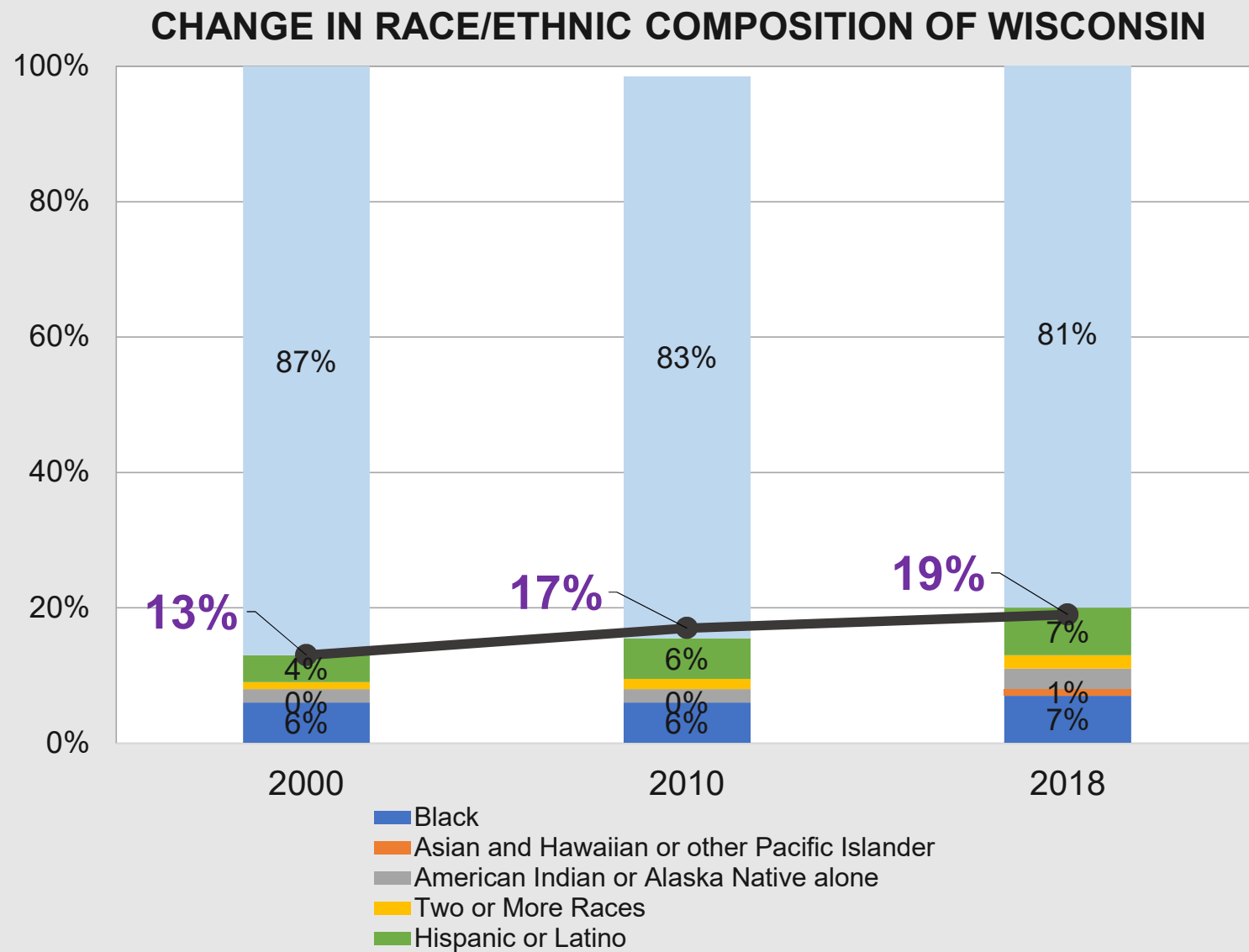


U.S. Census Bureau, Decennial Census and Population Estimates.  
Forecasts: Minnesota State Demographic Center.





WISCONSIN IS  
BECOMING  
MORE  
CULTURALLY  
DIVERSE



Integrated Public Use Microdata Series from the U.S. Census Bureau, American Community Survey

# MARKET FORCES

**COMPARATIVE ADVANTAGES**

**MARKET PREFERENCES**

**WORKFORCE SHORTAGES**

**HOUSING AND JOBS MISMATCH**

**COST-BURDENED HOUSEHOLDS**

# TOP COMPARATIVE ATTRIBUTES OF THE MSP REGION



1. **HOUSING:** Availability and affordability of housing



2. **PROXIMITY:** How close to my opportunity is it?



3. **MOBILITY:** Do I have options to get around?



4. **CONNECTIVITY:** Can I meet people or be near friends and family?



5. **PARKS AND GREEN SPACE:** Can I enjoy the outdoors?

**ALSO RATED HIGHLY:** Access to restaurants/bars, arts/culture, safety

**SITUATIONALLY IMPORTANT:** Walkability, school district, bike paths

# GEN Y: GREATEST URBAN INTEREST

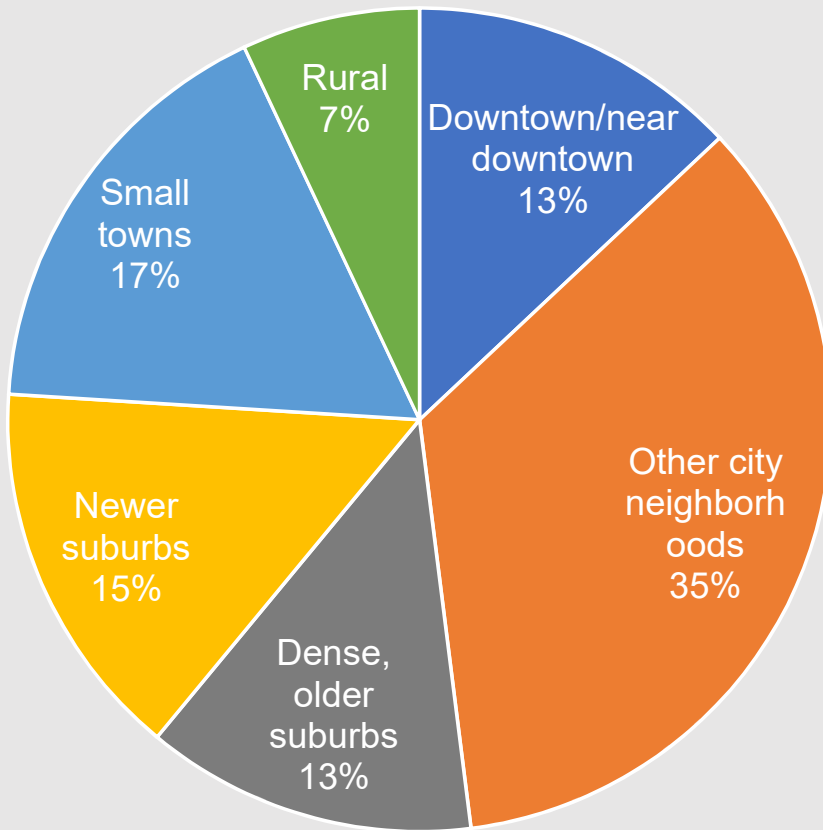


- ▶ **About 10.5% currently live downtown...**
- ▶ **...another 7% would like to live downtown, or about 18%**
- ▶ **About 30% would like to live in the City**
- ▶ **Urban places with appeal to Gen Y:**
  - Have a virtual, wired world co-existing with the physical environment
  - Incorporate technology
  - Cool places to hang out and text each other...
  - Fun restaurants and bars
  - Music and art

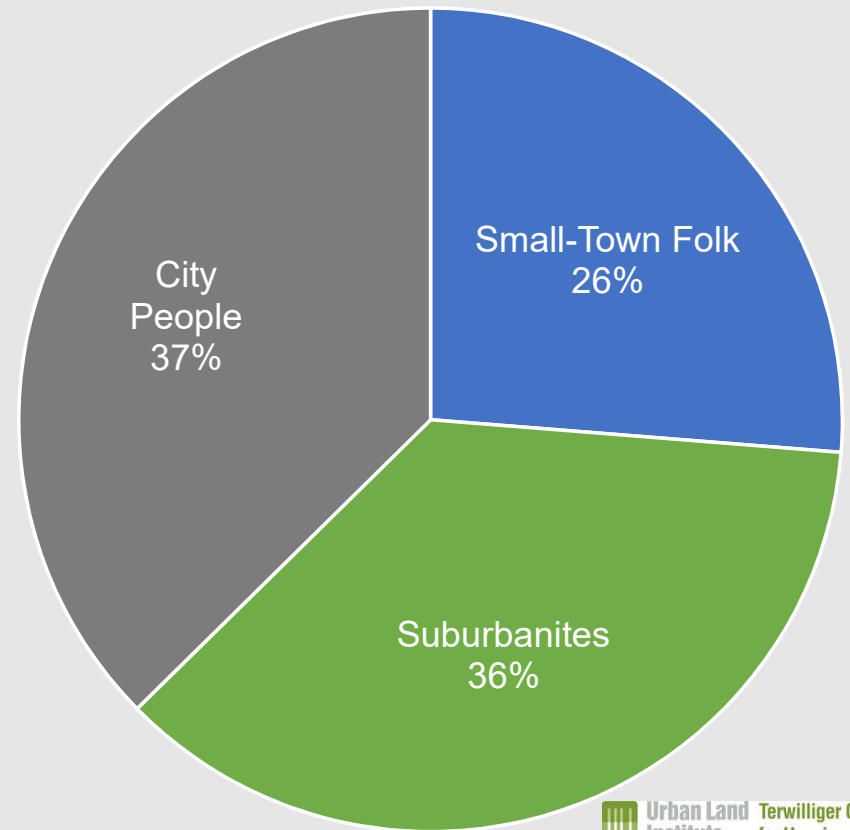
SOURCE: RCLCO; National Association of Realtors Survey

# MILLENNIALS LIVE IN COMMUNITIES OF ALL TYPES AND WANT URBAN-LIKE AMENITIES

## WHERE THEY LIVE

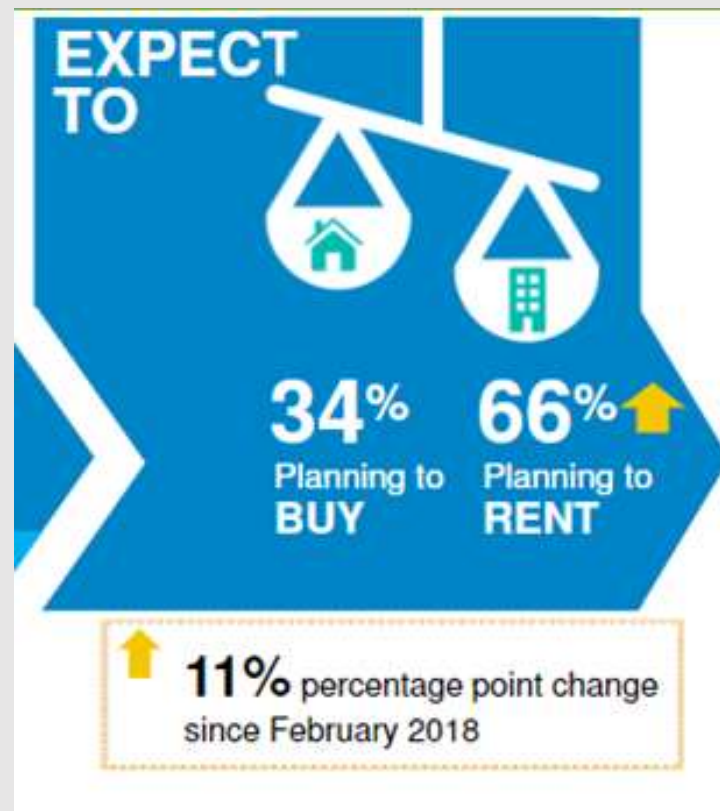


## HOW THEY SEE THEMSELVES



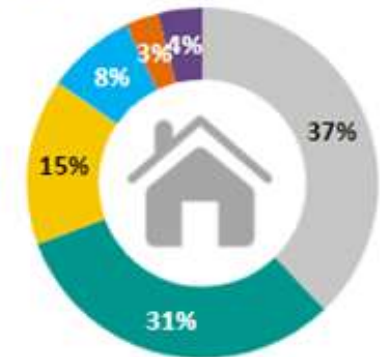
# FEWER RENTERS PLAN TO BUY IF THEY MOVE

WHEN  
EXPECT TO  
MOVE



## NEXT RENTAL PLANS

- Single-Family Home
- Complex with < 50 Units
- Complex with > 50 Units
- Townhouse
- Other\*
- Condo





# ESSENTIAL WORKFORCE HAS THE MOST DIFFICULTY AFFORDING RENT

66%

Reported difficulty affording their rent at some point over the past two years.



Nearly 9-in-10 renters employed in the essential workforce, such as healthcare and education, had significant difficulty affording the rent over the past two years.



# APARTMENTS NO LONGER JUST ABOUT “SHELTER”



Different Product

Broader Marketing

Clever Programming

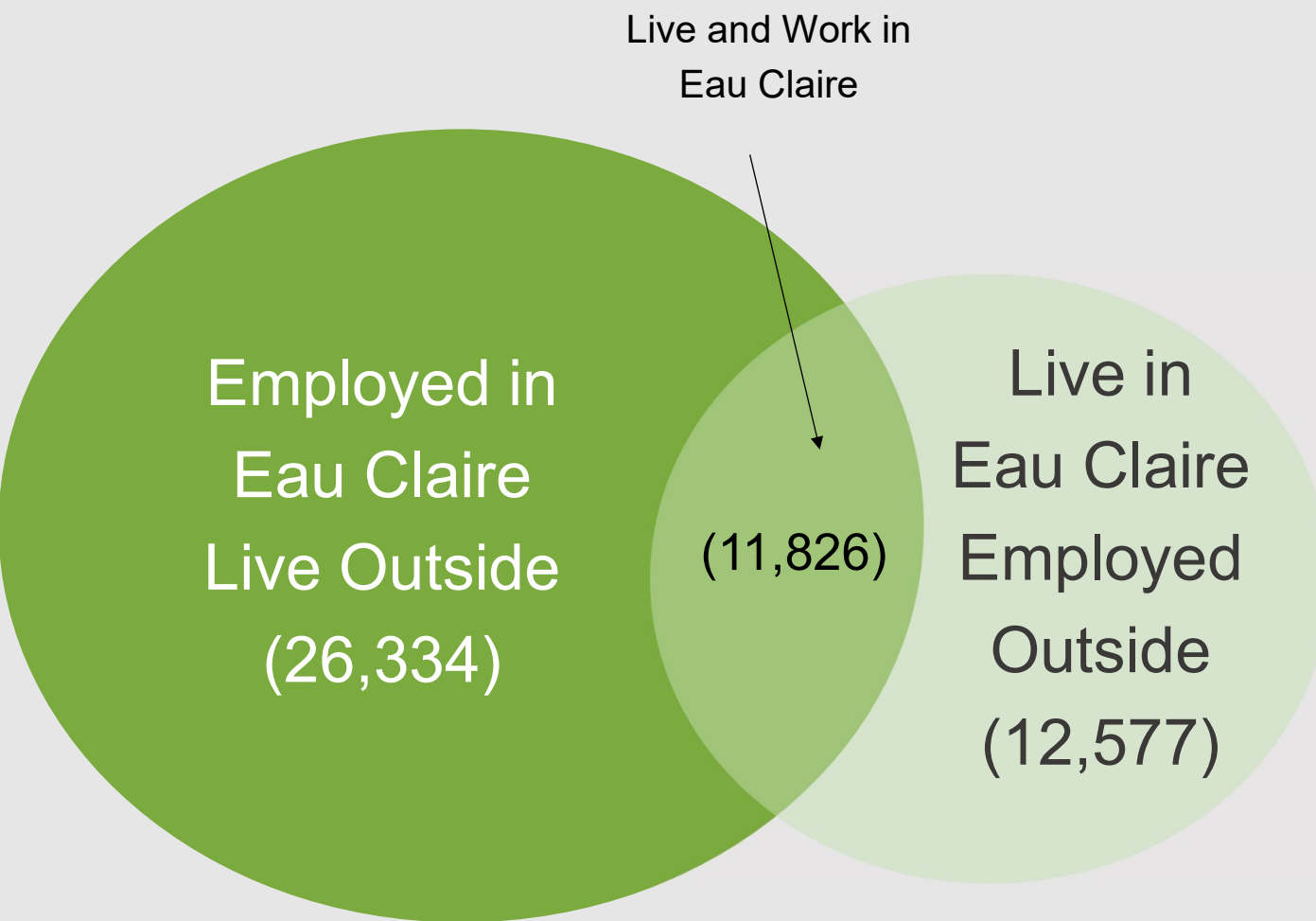


# MSP PROJECTED SHORTFALL OF 100,000+ SKILLED WORKERS BY 2020

**BABY BOOMER  
RETIREMENTS  
STAGNANT LABOR  
FORCE GROWTH  
CHALLENGES  
RECRUITING TO THE  
REGION**



# CITY JOBS/RESIDENT WORKERS

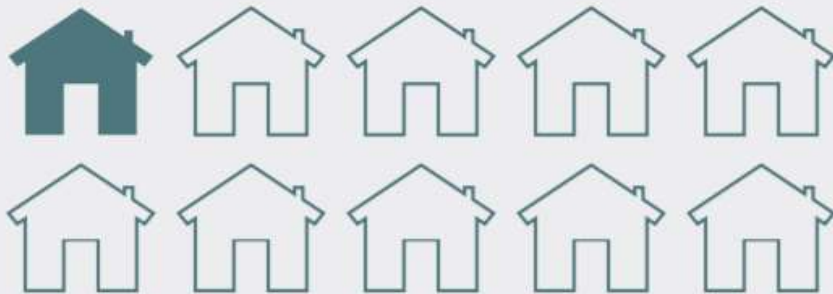


Where Residents Work Top 10 Places	
Eau Claire	52%
Chippewa Falls	4.8%
Menomonie	3.3%
Altoona	2.5%
Lake Hallie Village	2.2%
La Crosse	1.3%
Marshfield	1%
Wausau	0.8%
Rice Lake	0.7%
Madison	0.7%

Source: U.S. Census Bureau, OnTheMap Application and LEHD Origin-Destination Employment Statistics (Beginning of Quarter Employment, 2017).

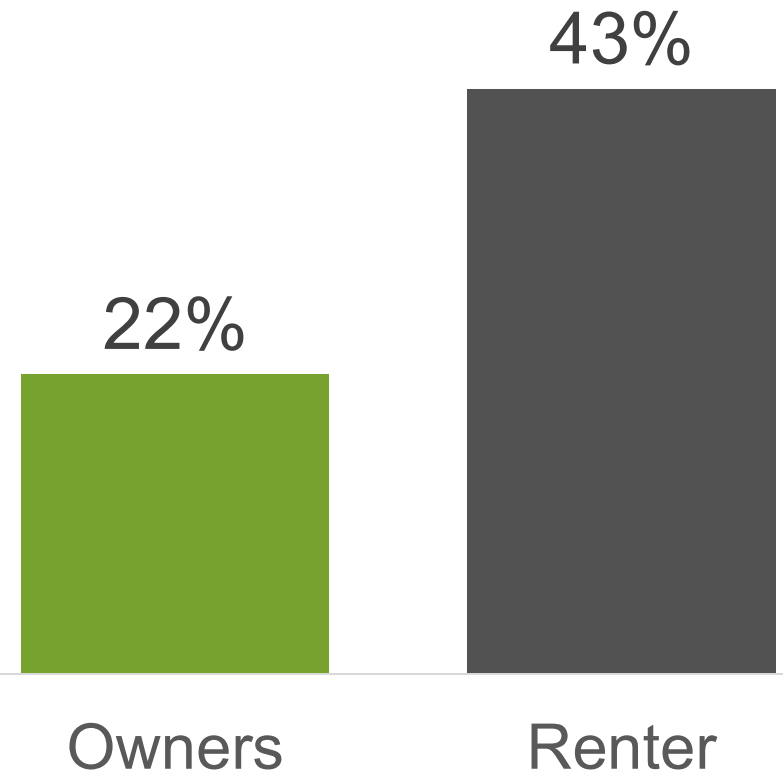


**COST BURDEN** is when a household spends **more than 30% of its income on housing**. Research shows that families spending more than 30% on housing often have inadequate resources to pay for other necessities like food and medicine.



Of the **1,336 units** of affordable housing constructed in the Twin Cities in 2017, **only 164 units** were affordable to households earning 30% of AMI.

Wisconsin Households Paying More than 30% of Income on housing



13% of HH Pay More Than 50% of income on Housing Overall





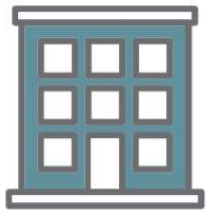
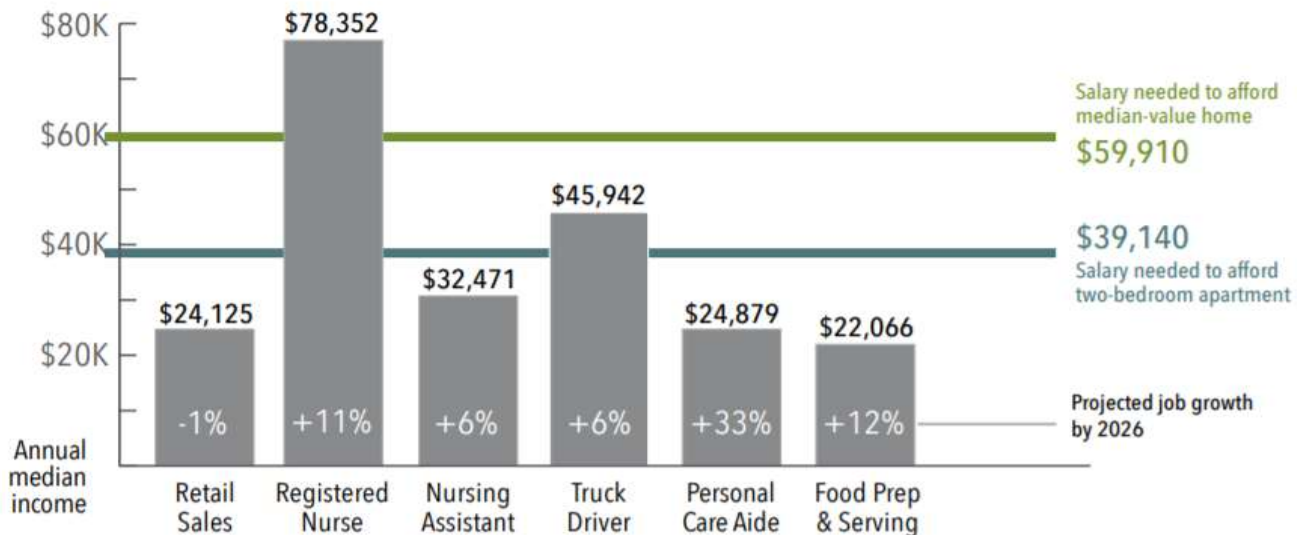
**61 hrs** for 1 bedroom

**78 hrs** for 2-bedroom

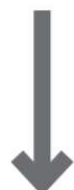
Minimum wage earners must work close to two full jobs

# In-Demand Jobs Don't Cover Housing Costs

Wages and housing affordability for top in-demand jobs in Minnesota



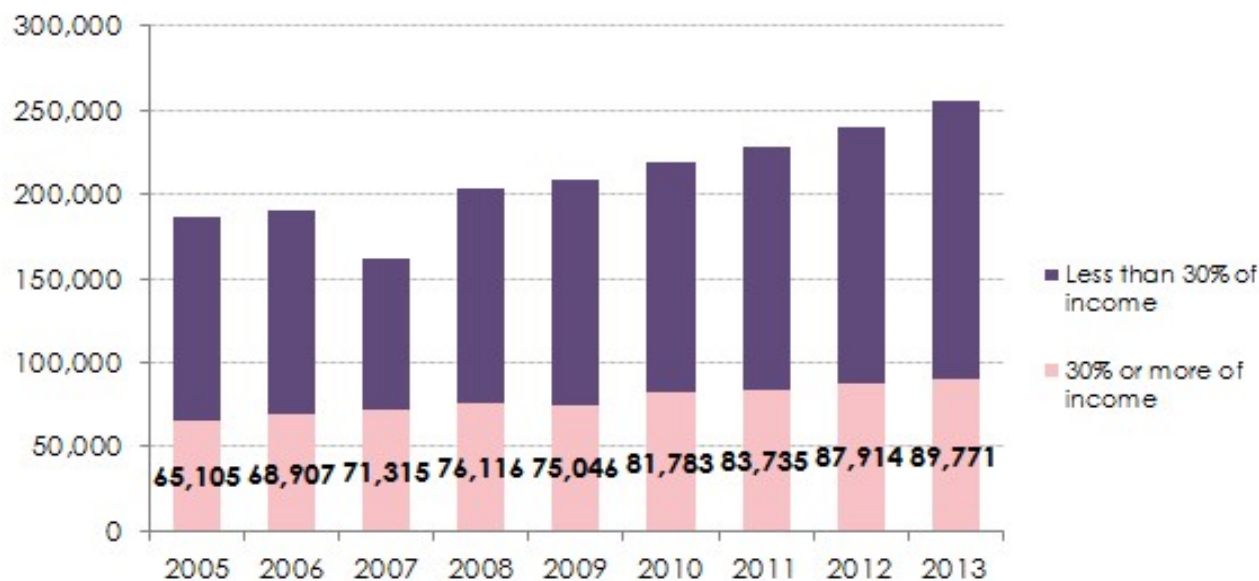
GROSS RENT INCREASE  
**+13%**



MEDIAN RENTER INCOME DECREASE  
**-5%**

# Housing Affordability Important to Aging Residents

**Income Paid for Housing by Households Headed by Senior Citizens 65+, Twin Cities Metro**



Source: American Community Survey, 1-year estimates

Chart: Minnesota Housing Partnership



## SENIOR POVERTY

“An elderly Minnesotan relying on Social Security benefits would spend almost 60 percent of his or her income to afford a one-bedroom market rate apartment in the Twin Cities. While poverty is less prevalent among the elderly, it is more persistent. When seniors fall into poverty, they are more likely to remain poor than other age groups.”

*Minnesota Budget Project*

# ACHIEVE COMMUNITY BENEFITS

**WHY DENSITY**

**DENSITY VS. CROWDING**

**SUPPORTING HOUSING OPTIONS**



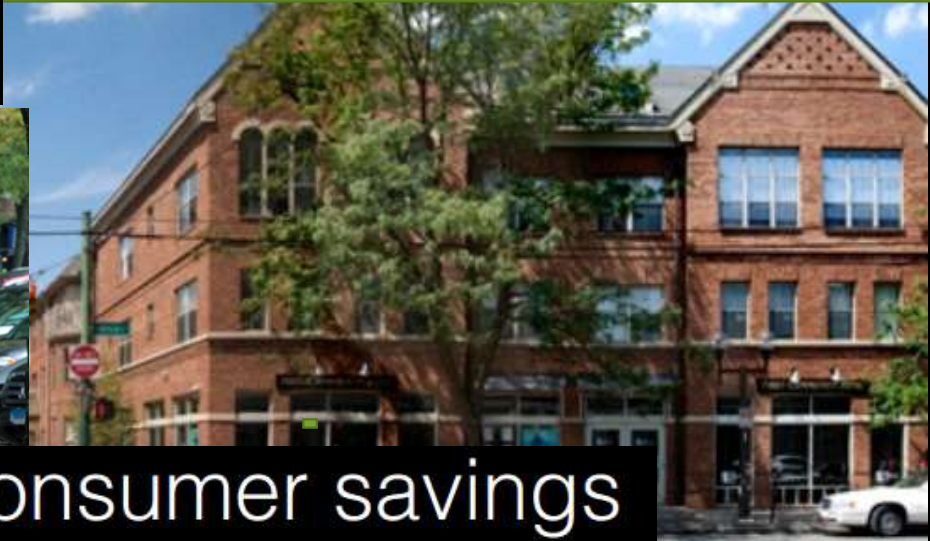
# How can increasing density achieve community goals?

more open space



consumer savings

lower infrastructure costs



social cohesion



[juliecampoli.com](http://juliecampoli.com)

better health



less driving

# Why is Density Important?



## What do we value in our neighborhoods?

54% of all adults surveyed chose three or more compact development attributes.

*Percentage Indicating a Preference for These Community Attributes*



If destination is within a mile,  
how many will people walk?

Shopping:	40%
Work:	35%
School or Church:	46%
Recreation	60%

*Source: USDOT Federal Highway Administration, 2009 National Household Travel Survey*

## Density Doesn't Have To Mean Crowding

### Density vs. Crowding

#### **Density:**

The number of people in a given space

#### **Crowding:**

The subjective perception that that number is too high

- Julie Campoli



## Density Gone Wrong



## Density Done Right



# The Number is not as important as the Design



**Excelsior & Grand, SLP = 75 units per acre**



# Important Elements for Consideration

- ✓ Design
- ✓ Mix of Uses
- ✓ Connections
- ✓ Parking
- ✓ Open Space
- ✓ Public Amenities

Suburban infill / retrofit

*Lake Oswego, OR*





# Economic Benefits of A Full Range of Housing



## **JOBS**

Construction, On-going

## **TAX REVENUE**

New sales, income, property taxes

## **INDIRECT**

More disposable income to spend locally

*Compass Pointe, New Hope*

# Health Benefits of Housing

*Regions Hospital in St. Paul connects patients with housing programs:*



Over six years, the program has **reduced ER visits among participants by 68 percent** after enrollment, and helped most maintain stable homes.

**- Vince Rivard**

*Spokesman - Regions Hospital*



# Academic Benefits of Housing

“

*Students who **experienced homelessness or high mobility had chronically low levels of reading and math achievement...***

*according to research conducted by the University of Minnesota. The gaps either stayed the same or worsened as students approached high school.*

”





# A Home for Everyone

Housing choice that is affordable is as diverse in style as any housing and meets the needs of young families, seniors, workers in lower-wage jobs and others.



Compass Pointe,  
New Hope  
(above); Elevate  
**82 units per  
acre**, Eden  
Prairie (right)



Excelsior &  
Grand, **75 units  
per acre**, Eden  
Prairie (above);  
Village Commons  
in Savage (left);  
Portland  
Townhomes,  
Minneapolis (right)





# INDUSTRY LEADER PANEL DISCUSSION



# The Primary Goal of a For-Profit Real Estate Developer?

Generate a return on investment by filling an unmet need in the real estate marketplace

## Key Concepts

### Risk and Returns

Required Return – the minimum amount of money a developer needs to make on a new project based on that project's risk

Returns are not guaranteed

Riskier projects need higher returns to be worth the investment

Developers have alternatives



# How do We Achieve Our Goal?

Identify and fill an unmet need in “The Market”



Manage Risk

# Identify & Fill an Unmet Need

## - who is the market?

Primary Market: The people who lease or use our projects once they are built (i.e. your constituents)

Secondary Market: The people who will invest money in the project

- Banks
- Equity partners

# Identify & Fill an Unmet Need

## - What does the market want?

Primary Market: A place to live, shop, or work

Secondary Market: A return on their investment

# Identify & Fill an Unmet Need

## - Who will the market pay?

Primary Market: based on incomes and alternatives in the market

- People can only afford to pay SO much
- Static at a specific point in time

Secondary Market: how much they will invest based on a project's risk and potential return

# Identify & Fill an Unmet Need

## - What tools do developers use?

Demand Studies

Focus groups

Surveys/interviews

Competitive secret shopping

Experience/intuition

# How Do We Achieve our Goal?

1. Fill an unmet need "The Market"

2. Manage Risk





# Manage Risk

## Qualitative:

- Governmental – entitlements, permitting, and licensing
- Operating – marketing, management
- Location
- Design assumptions
- Force majeure
- Macroeconomic risk

## Quantitative:

- Cost assumptions
- Revenue assumptions
- Time

# Manage Risk

What tool do developers use?

## Qualitative Risks:

- Relationships
- Experience/intuition

## Quantitative Risks:

- Proforma

# The Proforma

- The primary tool used to manage quantitative risks

Proforma: an excel spreadsheet that aggregates all cost and revenue assumptions over a given time period to determine if a project has the *potential*\* to meet the developer's required returns

- Best tool we have, but not the perfect tool
- It doesn't account for a significant amount of our risks

# Key Takeaways

Developers and cities are on the same team

The more complicated and uncertain entitlement processes, the higher the risk

High city development land impact fees & design requirements lower project returns

Cities are competing against each other for new development

A lack of new development supply pushes rents up, decreasing affordable options

# CommonBond Communities

Upper Midwest APA Conference  
Break Out Session  
October 2, 2019





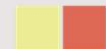
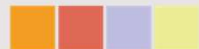
# Primary Goal of a Non Profit

## Mission

CommonBond builds stable homes, strong futures, and vibrant communities.

## Vision

Every person has a dignified, affordable home that supports independence and advancement within a flourishing community.



# How Does CommonBond Achieve its Mission?

## Build and Preserve Affordable Housing



**Cooperage Senior Housing** Minneapolis, MN



**Cathedral Hill Homes** St. Paul, MN

## How Does CommonBond Finance these Buildings?



### Low-Income Housing Tax Credit (LIHTC)

- *Primary source of funding for affordable housing*
- *Competitive application process*
- *Insufficient to fund entire development, gap/soft funds are needed*
- *Significant compliance requirements*

# What's the Market/Need?

- Urban, Suburban, Rural
- Family, Senior, Supportive Housing
- New construction, preservation
- Low, medium, high density
- Strategic, opportunistic
- Access to amenities (ie. food, jobs, transit, education, health care)

# How do we make it work?

- Identify sites or properties that meet the goals of the QAP
- Develop a concept, scope, and budget (proforma)
- Identify achievable rents (LIHTC program has strict limitations on rent payments, based on county AMI) and operating budget
- Identify a team of project partners:
  - Funding sources (private, public, investor, lender)
  - Architect
  - General contractor
  - Industry experts (attorney, CPA, surveyor, environmental, etc.)
- Close on the financing, and complete project on-time and on budget!



# Rents & Income Limits

Program and Location Information		LIHTC Income Limits for 2019 (Based on 2019 MTSP Income Limits)				
Affordable Housing Program	IRS Section 42 Low-Income Housing Tax Credit (LIHTC)	Charts	60.00%	30.00%	50.00%	140.00%
Year (1)(2)	2019 (effective 04/24/19)	1 Person	30,840	15,420	25,700	43,176
State	WI	2 Person	35,220	17,610	29,350	49,308
County	Eau Claire County	3 Person	39,600	19,800	33,000	55,440
MSA	Eau Claire, WI MSA	4 Person	43,980	21,990	36,650	61,572
Persons / Bedroom	1.5 Person / Bedroom	5 Person	47,520	23,760	39,600	66,528
4-person AMI	\$73,300	6 Person	51,060	25,530	42,550	71,484
National Non-Metropolitan Median Income (3)(4)	\$60,600	7 Person	54,540	27,270	45,450	76,356
Hold Harmless (6)	You have indicated that your project was placed in service on or after 04/24/2019 and is therefore eligible to have its income and rent limit held harmless beginning with the 2019 limits.	8 Person	58,080	29,040	48,400	81,312
Placed in Service Date (7)	On or after 04/24/2019.	9 Person	61,560	30,780	51,300	86,184
Rent Floor Election (8)(9)	Effective on or after 04/24/2019.	10 Person	65,100	32,550	54,250	91,140
		11 Person	68,580	34,290	57,150	96,012
		12 Person	72,120	36,060	60,100	100,968
		LIHTC Rent Limits for 2019 (Based on 2019 MTSP/VI Income Limits)				
		Bedrooms (People)	Charts	60.00%	30.00%	50.00%
		Efficiency (1.0)		771	385	642
		1 Bedroom (1.5)		825	412	688
		2 Bedrooms (3.0)		990	495	825
		3 Bedrooms (4.5)		1,143	571	953
		4 Bedrooms (6.0)		1,276	638	1,063
		5 Bedrooms (7.5)		1,407	703	1,173
						FMR
						520
						612
						810
						1,096
						1,282



## Typical Project Timeline & Risk Management

Identify Site and Develop Concept:	January 2019
City Entitlement Process (pre or post LIHTC app):	Summer 2019
Secure Financing:	
City/County Gap Finance Deadline	Summer/Fall 2019
WHEDA Tax Credit Deadline	Dec 2019/Jan 2020
LIHTC Award	Spring 2020
Architectural Design Complete:	Fall 2020
Close on Financing and Construction Commencement:	Spring 2021
Construction Completion:	Spring 2022



# Why do it?

Achieve our Mission and Vision to create equitable outcomes for all within our community!

Make money to pay staff and keep the lights on!

# Questions

Diana Dyste  
Project Manager  
651-312-3349  
[Diana.dyste@commonbond.org](mailto:Diana.dyste@commonbond.org)



**CommonBond**  
COMMUNITIES



# Public Financial Assistance to a Developer

- What's the process for considering a request?
- How do you know what amount of assistance is “really” needed?





# Analysis of Developer Pro Forma

- City may consider impact of public financial assistance on the following:
  - Developer Return on Cash / Return on investment
  - Debt service coverage



# Analysis of Developer Pro Forma

## ILLUSTRATIVE EXAMPLE OF PRO FORMA SUMMARY

Years <sup>1</sup>	Year 1	Year 2	Year 3	Year 4
Gross Income	927,000	955,000	979,000	1,003,000
Less Expenses	(255,000)	(260,000)	(265,000)	(270,000)
Net Operating Income (NOI)	672,000	695,000	714,000	733,000
Tax Increment Financing (TIF) Revenue	75,000	75,000	75,000	75,000
NOI After TIF	747,000	770,000	789,000	808,000
Debt Service	650,000	650,000	650,000	650,001
Debt coverage with TIF	1.1	1.2	1.2	1.2
Debt coverage without TIF	1.0	1.1	1.1	1.1
Return on cash with TIF <sup>2</sup>	7.5%	7.7%	7.9%	8.1%
Return on cash without TIF <sup>2</sup>	6.7%	7.0%	7.1%	7.3%

1/ Typically will request a ten year pro forma from developer

2/ Total development cost of \$10.0 million.