

EDEN PRAIRIE HOUSING TASK FORCE MINUTES

Weds Nov 13, 2019

HTF Members	Chair Joan Howe-Pullis Vice Chair Lyndon Moquist Carol Bomben Pedro Curry Terry Farley Marlene Fischer Mohamed Nur Joan Palmquist Anne Peacock Ken Robinson Emily Seiple
Staff	Jonathan Stanley, Housing and Community Services Manager Amanda Pellowski, Community Development Administrative Assistant
Guests	Owen Metz, Vice President, Dominion Jamie Thelen, President & CEO, Sand Companies Councilmember Mark Freiberg

I. WELCOME AND RECAP FROM LAST SESSION

Stanley called the meeting to order at 5:32pm on behalf of Vice Chair Moquist. Absent were Chair Howe-Pullis and Members Fischer, Curry and Nur. Stanley shared that Howe-Pullis hopes to be back for the December meeting.

II. GUEST SPEAKERS FOR INCLUSIONARY HOUSING DISCUSSION

Stanley introduced the guest speakers, Jamie Thelen and Owen Metz, and asked them to share a bit about the markets they serve, their business models, any experience with inclusionary housing policies, and feedback for Eden Prairie's possible policy.

Thelen shared he's worked for Sand Companies for 23 years. Their company's first affordable project was in 1995. They do mostly affordable but also some market rate, mostly in the Twin Cities but a few out of state. They also do commercial construction. They do general construction for their own projects and have architects in house and manage their own properties. They've only sold one affordable property they've developed. They have a long term strategy. Farley asked if they do rental or single family housing. Thelen answered they mostly do rental housing – apartments and townhomes. Farley asked if they've included affordable units in their market rate developments. Thelen responded they did a small 60 unit market rate project in Arden Hills and included four units that Ramsey county gave them \$325K for. He felt it was odd, as did some of their market rate lenders, but it seemed to work ok.

Metz shared Dominion primarily develops affordable apartment properties. They own & manage 35,000 units across the country in 23 states. The company started out in the 1970's doing Section 8 development. Their projects have always centered on tax incentives for affordable housing. Their

first project using the affordable tax credit was in the early 1990's. They still do many Section 8 rehabs, construction for senior and workforce, and tax credit resyndication, since every 15 years you can recycle (refinance or resyndicate) tax credit deals that were originally affordable. That rehabs them and keeps them affordable. They do some conventional development and are trying to figure out how to make the math work on workforce housing. Dominion is growing in markets that have large population growth and income growth. He stated the biggest risk to affordable housing developers is market risk. If you don't have income growth, you don't have rent growth and expenses outpace inflation. That's why Dominion is focused on markets in Florida, Georgia, Nashville, Texas, and Colorado. They mainly develop projects that are 200 or more units. They tend to do bonds plus 4% tax credit transactions. They haven't done a 9% competitive deal through Minnesota in five to six years, and looking back they regret the one they did do. It might work to do a deal in Texas where you could do 200 units at 9%, but in Minnesota you're capped at 40 so it's harder to manage, more expensive and there's not as much residual value. Their focus is on the back end - what's left after 20-30 years.

Moquist joined the meeting at 5:38.

Stanley asked the guests if they had experience in communities with inclusionary policies. Thelen answered that Sand Companies does not. They're not avoiding it, they just haven't come across it yet. Metz said Dominion is aware of inclusionary policies, but hasn't had any experience with them because they tend to do 100% affordable developments. They did some mixed income developments in the early 2000's, like The Bluffs in Eden Prairie that has 188 units. It came with TIF which was a way to get the math to work. The bread and butter of Dominion's work is getting deals financed. They focus on getting financing in a cost effective way that's easy to get investors and lenders to back them. Affordable developers don't want to take on market rate risk, and market rate developers don't want to take on affordable risk, so it's difficult to marry the two.

Stanley stated the City has had some success with sprinkling affordability into market deals and vice versa. He asked the guests if they see any loosening in the investor community with that concept. Thelen reiterated affordable developers don't want to take on market rate risk, and market rate developers don't want to take on affordable risk. Investors in the Section 42 program are there for the tax credits and don't want to take on market risk. They won't back a mixed use with retail space. He does think they'd consider deals if the rents were underwritten the same as a tax credit rent, so if a developer couldn't get market rate rent the underwriting would cover the gap, but it could leave a sizable gap. Every state and every community is pushing mixed income, so investors are feeling that pinch but they're still skittish.

Moquist asked Metz about financing – what's the challenge and why is it Dominion's strength. Metz answered their staff's background is in finance and running models. Also because of their size they can do things other companies can't. They're able to get terms and stretch the envelope a bit more than a smaller company in the affordable business. Because of their background in finance, they tend to look at things differently than developers who have more of a contractor background. They're willing to do things for less money up front because they're looking at the long term profit. They try to come up with creative ways to fill gaps.

Bomben asked Metz if there were places across the country where Dominion has found barriers. Metz answered that it's really about the math. There are states that are doing things to bring money to the table and are investing in affordable housing. Minnesota does almost zero to invest in

affordable housing compared to Georgia. Georgia has a state low income housing tax credit that comes with tax exempt bonds and a 4% credit that's automatic ("by right"). In Minnesota TIF works ok, but you have to get a council to vote. Other states make it simpler by passing a statute that says if you're affordable you don't have to pay taxes. In some instances counties are now coming up with money to try and solve the problem because they know they're not going to get federal money. Bomben asked if Metz has come across a model that's mutually beneficial to the investor, developer and community. Metz replied inclusionary zoning is difficult because it's hard to mix apples and oranges and still get financing. Mixed income and mixed use is hard if it's not a phenomenal retail site because the retail will be empty and will cause a loss. Palmquist asked if this is also the case with transportation based sites. Metz believes it is, except for a few exceptional sites like Elevate.

Seiple stated there are inclusionary policies that don't mandate that affordable and market units be on the same site. These usually involve an in lieu fee. Is that a better option for developers? Thelen respond in lieu is good because it gives developers an option and brings in money in for affordables. Whether or not it's attractive would depend on what the fee is and what the market's like. Metz added developers have many options to choose from – if they're going to get a smaller return they'll go somewhere else.

Stanley gave some background on Eden Prairie's inclusionary negotiations that have been happening on a case by case basis for a few years. Metz added Dominion went through negotiations with Eden Prairie on The Bluffs project a decade ago. Moquist asked for advice on how to continue to attract developers and whether there's concern that adopting an inclusionary policy will stop development. He's also heard rumblings that it's difficult to mix. Is there anyone out there doing mixed income that's successful. Thelen shared that Sand Companies is working on a project with three buildings in the Twin Cities. Two buildings are market and one is affordable. One member of that community's City Council was insistent that all buildings be mixed. Sand Companies ended up staying with the plan to have two market rate buildings and one affordable building. He understands the push to mix because of NIMBYism (Not In My Back Yard), but doesn't necessarily agree with it.

Metz stated Dominion does have mixed income in their portfolio. They've done it by including about 10-20% affordable and 80-90% market. They received a big amount of TIF to cover the gap. The Bluffs in Eden Prairie has mixed income, along with a property in Plymouth, St Paul, and St Anthony. Those were doable because of the TIF subsidy. Those properties average 200 units, so about 20-40 affordable units per property. However, doing 20% affordable now would be much harder because construction costs have risen. Developers will work with a city if there's a financial incentive. Rezoning to multifamily isn't enough, parking waivers don't really help, and density may or may not help. Making those concessions may make a developer feel good, but they don't help to make the finance piece work. Metz handed out a sheet showing how much subsidy a developer would need to break even depending on the size of unit and percent of Average Median Income (AMI). It takes \$3-4M to get 20 units down to 60% AMI. That's just to break even and not providing any incentive to the developer. Stanley stated the City has had a couple cases where market rate developers have agreed to mixed income. He asked the guests for their opinion on why the developers may have agreed. Metz speculated that perhaps they got a good deal on land, the market can support really high rent, or there was some other factor that was a benefit. Thelen asked if the City filled the gap for the developers. Stanley responded they did not. Moquist asked if the objective is to get results - even though it may not provide a level playing field, is it better not to have a policy with a hard number in order to avoid deterring development. Robinson referred to the statement that parking waivers and zoning don't work as incentives and asked what does work.

Metz responded that money works. Minnetonka is giving them \$10M (some in cash, some in TIF) for 100% affordable housing - 480 units. But typically Dominion looks to build in other states because there aren't enough resources in the MN market to do more for housing. TIF can definitely help – it's easy for a developer to leverage, lenders understand it, it can be underwritten efficiently and doesn't cost any future increment. But if you say you're investing for the future of what you want, eventually it's going to be paying taxes again.

Thelen referenced data showing inclusionary housing policies in Seattle that never actually produced any additional units. His learning from that data was that in order to create affordable units it's best to do an all affordable property. Palmquist asked if the City's goal of mixing market rate with affordable units will conflict with the goal of creating more affordable housing. Seiple stated for mixed income housing there are many unclear results.

Palmquist asked the guests their opinion about perpetuity. Metz said perpetuity is a nonstarter. Thelen said it would be a challenge. Stanley stated the City has had success getting developers agree to perpetuity on several deals. He asked for more detail on why it would be a nonstarter for Sand Companies and Dominion. Metz responded perpetuity brings too much risk and doesn't allow the developer to make money. A small number of units may not be a big deal, but for a large number of units perpetuity could cause a developer going into foreclosure. Developers won't do things for free. If they're agreeing to the City's perpetuity requirements, they're figuring out a way to make the math work. His opinion is developers won't take the risk and won't agree to perpetuity.

Seiple asked the guests what happens to the properties owned by their companies after 30 years. Metz responded that buildings get old, rents are down and the market takes care of it. In the Twin Cities, the rents for 30 year old buildings that are market rate are lower than the rents for new tax credit buildings. The rent for an affordable one bedroom at 60% AMI is \$1125 per month. For a market rate one bedroom in a 30 year old building the rent's \$800-900. His biggest irritation about the push for affordable housing in the Twin Cities is that the market hasn't produced enough housing overall. There's a lack of supply. The reason the market hasn't kept up is because of government and zoning laws. Seiple asked what will happen with the new housing being built in Minnetonka in 20 years. Metz responded it becomes the next Naturally Occurring Affordable Housing (NOAH). Perpetuity makes a development really hard to finance, it's a lot more risk because there's no way to get out, refinancing down the road is difficult, and it's hard to get an appraisal. What mostly happens with properties is every 15 years you rehab it and kick the can down the road. Let the market do its job.

Bomben asked if there was a creative way to approach the number of years of TIF to create incentives. Metz responded Dominion has done deals where the TIF percentage drops off or phases over time. They've agreed to different variables, but no matter what there has to be a benefit to the developer. Moquist asked if the City should take the approach of providing incentives instead of setting rules and asked what would most attract developers to Eden Prairie. Metz stated incentives are more attractive. The certainty of entitlements is a big deal to developers. Uncertainty and risk will be shied away from. Moquist asked what amount would cause a developer to walk away from a project. Metz responded between \$500K to \$1M. Bomben asked if there's an equation to help developers get money/incentive at the front end of a deal instead of over time. Moquist asked if the guests had examples of other incentives that might draw in developers. Metz replied go up a percentage point to give the developer a bit of a bigger return. In Brooklyn Park Doran got TIF for 100% market rate, but for reduced rents. A return of 1 or 2% more would probably be enough to

entice developers. Moquist shared thoughts from the CFO of Doran, who told him that a fair playing field is good because no one likes surprises, but the best way to solve the problem is not to create rules. Doran will look at anything because of the lack of land right now. But if you put up roadblocks they will walk away. Thelen stated most developers are sophisticated enough to understand there are things they're going to have to do. Sand Companies isn't scared off by zoning, city meetings, etc. Metz added having a strong city council that's able to deal with NIMBYism helps a ton. He advised not to allow perfect to get in the way of good - just get stuff built and start some momentum. Moquist asked how The Bluffs project in Eden Prairie was initiated. Metz wasn't with Dominion at the time but guessed Dominion approached the City and asked for TIF.

Councilmember Freiberg asked if city fees are becoming a roadblock to affordable housing, such as artwork or permits. Metz replied fees probably hurt smaller deals. Larger deals are able to spread them out more. It might help to not require fees to be paid up front. Stanley stated they have waived park dedication fees in the past to help support affordable units.

Metz left the meeting at 6:36pm.

Moquist stated most of the land left to develop in Eden Prairie would allow for 10-15 units. Stanley shared the City does still get inquiries on larger parcels. Moquist asked how low their policy recommendation should go. He believes the number should be higher than the teens. Stanley stated staff has begun analysis on the last 17 single family projects in Eden Prairie that span 5-7 years. If there had been a policy in place with a threshold of 10 units, ten developments would have been impacted. If the threshold had been set at 15 units, four developments would have been impacted. If the threshold was 20, two developments would have been impacted. Moquist stated in lieu could be a solution. Farley added the fee is an open question. She stated the \$100K that Edina's collecting is aggressive. She asked about the size of the new development on Shady Oak by the new transit space. Stanley agreed there are some big opportunities at those stops. Seiple asked whether an inclusionary housing policy would apply to those special TOD areas if it were adopted in time. Stanley answered it likely would.

Palmquist asked if the City would consider an all affordable development or if that conflicts with Aspire. Freiberg stated right now the Council's desire is to encourage mixed income projects, but that could change in the future and that it's a work in progress. Moquist raised the question of whether the City is better off offering incentives instead of creating rules. Robinson stated it doesn't have to be one or the other. He suggested a minimum basic requirement and have incentives available to add as needed. Bomben agreed there needs to be guardrails. Robinson asked Thelen what's preventing Sand Companies from working in Eden Prairie. Thelen responded it's mainly the availability of land. If they heard about an available location in Eden Prairie they'd be excited about it. Another aspect to remember is that affordable units can create a lot of work. Sand Companies has a staff dedicated to compliance, but some developers, especially market rate, won't want to handle the administration of affordable units.

Robinson shared his take away from the guest developers is that mixed use is a stumbling block. To level the playing field with a few minor restrictions isn't going to hinder anyone as long as the math works. Thelen agreed restrictions don't scare the experienced developers because they're used to them. Moquist shared his concern that there's not enough data or experience to know how a policy could affect development. Stanley emphasized the City's experiences to date shouldn't be discounted, especially considering the negotiations have happened in lieu of a formal policy.

Adopting a policy will provide certainty developers want. Thelen agreed developers want to know the requirements up front so they can determine whether or not to pursue a project. They don't want surprises.

Moquist asked Thelen's opinion whether 10 or 15 units is realistic. Thelen asked if there's a toolbox to go with it. In his opinion the biggest challenge to the proposed Eden Prairie policy is the perpetuity. Who knows what's going to happen in 5 years, let alone 30 years. Farley mentioned the Met Council's goal to grow affordable housing. If you have units constantly rolling off it's impossible to catch up. Thelen responded there will always be more units coming, and some are naturally occurring. For him, perpetuity is really a problem. It's a challenge with resale. The City is better off doing something to make developers come back to refinance. Seiple felt there would then need to be something to trigger that. Seiple stated her takeaway from the conversation was that they need to examine the impact of not mixing properties and possibly having a targeted strategy for larger sites to get a higher number of affordable units. Farley stated for bigger sites it seems easier to have a percentage. For smaller sites it makes more sense to look at the numbers and use a dollar amount or a buyout that makes it economically feasible. She also asked, with the lack of available land in Eden Prairie, would it make sense to reconnoiter so developers have a better idea of what's available? Thelen advised that you probably need to be careful about keeping an inventory of other people's property, but you could have the City or Housing & Redevelopment Authority (HRA) put it on a website. Put out an RFP, get developers to compete for it, tell them what you want as far as affordability and you'll get developers to come. Freiberg stated in Eden Prairie the City Council is the HRA and is greatly underutilized. He encouraged the Task Force to think about ways they could use the HRA in their toolbox. He stated the City owns profitable liquor stores and asked if that could be another toolbox opportunity. Perhaps to protect NOAH the City acquires the property. Think beyond the box. Thelen recommended the City set up a housing trust fund immediately, since the state legislature soon may match funds. Freiburg asked the Task Force to bring the opportunity of trust funds in front of the Council again. Thelen stated if the City has levy authority through the HRA, it will be fairly easy to set up the trust & would be a huge tool to put in their toolbox.

Councilmember Freiberg stepped out of the meeting at 7:05pm.

Farley stated her appreciation for the developers' feedback. Thelen shared his appreciation that Eden Prairie is discussing housing because most other communities aren't. In his opinion inclusionary housing requirements aren't a big deal and don't scare developers, as long as you provide incentives. You might lose some developers, but maybe that's not a big deal. Farley reiterated that Metz didn't seem to think 5 – 10 units were a deal breaker. Seiple stated what she heard from both developers is mixed income is difficult. Thelen agreed. Not allowing 100% is challenging. Peacock asked if it's easier for affordable developers to put some market rate into affordable properties than vice versa. Thelen said it is. Peacock also asked if it's more challenging for market rate developer to insert affordability. Thelen agreed and cautioned against making a developer insert more than 20% market rate units. Keep it at 5-10% and sprinkle them in. They'll get underwritten through tax cuts or rents. But 50% affordable and 50% market rate won't work. Farley stated it would be one way to add diversity into units. Seiple added it could also be a way for smaller developments with fewer units to be more feasible. Moquist asked if the Task Force is deviating from the charter if they recommend allowing 100% affordable projects. Stanley answered he was under the impression the Council wanted some mix of income in developments, but according to what Councilmember Freiberg shared it sounds like they may be willing to consider 100% affordable.

Moquist asked for more information about The Bluffs project since that was pointed out as a project that could be used as a model. Stanley responded The Bluffs discontinued taking TIF, so the City will lose some affordable units. Palmquist suggested finding an incentive to get them to come back for negotiations. Farley pointed out that it will be difficult to get them to negotiate if the market's hot and they want to renovate and raise rents. Moquist stated in today's market in many areas young people can buy a home and have a much lower monthly payment than if they rent.

Farley asked Thelen if he'd run away from a city that required a certain percentage of units to remain affordable in perpetuity. Thelen responded he'd need to somehow have an out on any investment and perpetuity is a barrier to that. It's a really long time. Robinson suggested including a buyout factor for perpetuity. Thelen agreed that could provide an out. Farley pointed out the City did that with a recent project. Robinson asked if that could be written into the future policy. Stanley thought it might defeat the purpose of perpetuity.

Stanley informed the Task Force that City staff had recently met to discuss in lieu fees and where those fees would go, also discussing an affordable housing land trust. Stanley mentioned setup of an inclusionary housing fund, which is basically an account to keep track of money that's earmarked for inclusionary housing, so there's at least a landing place if in lieu fees were to be adopted. Farley stated it's basically a bank account and has more flexibility than a trust fund. Stanley stated St Louis Park uses an HRA levy as one source of their trust's funding, which is guaranteed to have funding put in it every year. Eden Prairie has used its HRA levy more conservatively, mainly for staff salaries. That's not to say the Task Force couldn't recommend increasing the HRA levy to help with affordable housing. Thelen stated a housing trust fund isn't just for affordable housing. It could be used for market rate housing, staff salaries, and administration of the program. It's more flexible than you might think. He wasn't sure why the City wouldn't want to have one. Farley suggested funds could be used similarly to what PROP does with helping residents with rent to keep them in their homes. Stanley stated Bloomington is planning to use their affordable housing trust fund to buy down rents from 50% to 30%. Thelen shared that Iowa City asked Sand Companies how much money they'd need if they took 50% units at a property down to 30%. Iowa City then used money from a housing trust fund to fill the gap for the developer.

Palmquist stated she and Farley are going to make some edits to the charter and asked others to send suggestions if they have any.

III. ADJOURN

Moquist adjourned the meeting at 7:30pm.