



AFFORDABLE HOUSING PUZZLE

A Finance & Commerce panel discussion

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PANELISTS



RICK TRONTVET
Digi-Key Electronics

Rick Trontvet is the vice president of administration for Digi-Key Electronics, a Minnesota-based, privately held company that is the sixth-largest electronic component distributor in the world, with annual sales revenues exceeding \$3.1 billion. Trontvet manages the public affairs and legal compliance functions for the company of 4,100 employees, which has four U.S. and three international locations. Trontvet serves on many local and statewide boards, and recently chaired the Minnesota Chamber of Commerce Board.



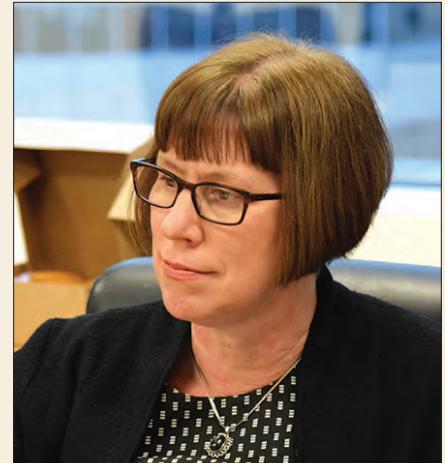
SHEILA KISCADEN
Olmsted County commissioner

Sheila Kiscaden is an Olmsted County commissioner who served on the Minnesota Housing Task Force in 2017. She continues to serve on the board of the Rochester Area Foundation's First Homes Program, the Rochester Coalition for Affordable Housing, and the Olmsted County Housing and Redevelopment Authority. While she has been deeply engaged in recent years on public policy housing issues, she draws on many years of experience in public policy as a state legislator, consultant and planner. She holds master's degrees in public administration and international development.



JONATHAN WEINHAGEN
Minneapolis Regional
Chamber of Commerce

Jonathan Weinhagen is president and CEO of the Minneapolis Regional Chamber of Commerce. He was elected to the Mounds View School Board in 2014 and currently serves as chair. He is a member of the Shoreview Economic Development Commission, past president of the Mounds View Schools Education Foundation and is engaged in various nonprofit board and committee roles including Tubman, Center for Economic Inclusion and the Family Housing Fund. Weinhagen completed a policy fellowship through the University of Minnesota Humphrey School of Public Affairs and earned his MBA and bachelor's degrees from Bethel University. Weinhagen and his wife, Nicki, along with their four boys, live in Shoreview.



ELLEN SAHLI
Family Housing Fund

Ilen Sahli joined the Family Housing Fund as president in December 2015. Prior to joining the Family Housing Fund, Sahli served in a number of departments focused on housing and community development for the city of Chicago. Initiatives under her leadership included developing the nationally recognized Chicago Neighborhood Stabilization Program, cutting-edge foreclosure-prevention strategies, and innovative multifamily preservation programs. As chief housing officer for the Chicago Housing Authority, Sahli directed the Authority's operating departments to ensure quality, affordable housing and targeted social services. Sahli has a Master of Social Work from the University of Illinois – Chicago and a Bachelor of Social Work from the College of St. Teresa in Winona.

A state task force on affordable housing released a report last year that contained some sobering findings. Not least of those was that more than 554,000 Minnesota households struggle to afford quality housing, a 58 percent increase since 2000.

Minnesota has an affordable housing crisis, and families looking for a home they can afford are only among those suffering. That paucity also means problems at the business level, as companies struggle to find workers they can count on staying.

Finance & Commerce recently convened a panel to talk about the state report and many other issues related to the affordable housing crunch in the state. The panelists were:

- **Jonathan Weinhagen**, president and CEO of the Minneapolis Regional Chamber

- **Sheila Kiscaden**, Olmsted County commissioner

- **Rick Trontvet**, vice president of administration at Digi-Key Electronics

- **Ellen Sahli**, president of the Family Housing Fund

The panel was moderated by Finance & Commerce staff writer Matt Johnson. The discussion was edited for length and clarity.

JOHNSON: What we can learn from the creation of this report about the state of affordable

housing in Minnesota? This morning, a certificate of real estate value showed up for the Gates of Rochester, a 413-unit, built in 1973, complex, near IBM's old campus. Naturally occurring affordable housing? Kind of. I mean, the rents are \$939 to \$1,200 a month. This is going to a big investor, and what we're seeing in the market right now is that it's value add all the time. If they come in there, put in your nice countertops, your new carpet, that's going to be a lot more expensive.

KISCADEN: So what was the final selling price?

JOHNSON: \$34 million. So not a huge amount per unit.

KISCADEN: We made an offer through the Area Foundation at \$32 million, and they rejected it. We were trying to preserve the housing, but, it's just emblematic of what's happening, especially in the metro area and increasingly in Rochester: Our most affordable housing is already built, and those rental units are being acquired by investors who see an opportunity to get a great return on investment, but in the meantime, the people who live there can't afford to live there anymore.

And we are having a lot of displacement that's coming from that. Preserving affordable housing is one of our biggest challenges, because there's all sorts of individual and community incentives to do redevelopment of properties. And

our community is growing really quickly. But we have an awful lot of service sector jobs that don't pay that well, and they're being priced out. What's being built is really geared toward the young professional or the more affluent senior. The new construction rentals or rehab of housing is pricing people out of the marketplace.

SAHLI: The story we heard during the task force as we went around the state to better understand how the challenges were presenting in each community is that this is impacting a community's ability to grow. It's impacting the lives of individuals who are already there. While the challenges might look different, it is a constant theme that communities are struggling with solutions, and that was the basis of our recommendations, how broad they were, and an effort to really attack the challenges that were presented uniformly.

JOHNSON: I want to find out a little bit more about what this report tells us about what's going on beyond the boundaries of the Twin Cities. There's a lot of news coverage about what's going on here because of the apartment market, but what does this tell us? You know, how much is this helping? How much is it not? And what do we need to do in the next four-year cycle?

SAHLI: I think the key thing that I took away from those conversations is that we really need many tools

to be able to address the challenge. And each of us can tell their own kind of story about what that means, but the way the recommendations are drafted pays close attention to existing housing as a challenge. Sheila (Kiscaden) just talked specifically about rental housing, but we also face challenges in quality in the single-family market.

As individual families change, aging in place, what does that house need to look like to accommodate that individual senior who is staying in place? As we are growing population, what do families need? What are the housing types to support those families in a market that might be more diverse now?

Homeownership is a key component, not just rental, but we need to extend homeownership and the opportunities more broadly into communities of color. And we need to really ramp up our production of housing units to be able to match the growth of our state. When you look at the recommendations, they hit on all the key types of housing issues, and we really tried to make recommendations that would address particular issues within that segment.

KISCADEN: When you talk about affordable housing, people sort of default to thinking that you're talking about the lowest-income Minnesotans, and that it's going to be a government solution. The reality is, it's affecting so much of our workforce. And it's affecting

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us as a state of whether or not we have a competitive edge in Minnesota right now compared to other metropolitan areas around the country. Maybe not so much compared to our neighboring states, but our housing is more affordable.

We have a workforce shortage. Workforce and housing go hand in hand. And if you can attract people because you've got a high quality of life, and you're going to be able to have a good home, and it's going to be affordable for your family budget, that gives us a competitive edge for that workforce need that we need, that we need to fill across the state.

That competitive piece means that every business in the state has something at stake. We find, as a county government, we've had some people who have moved here from other states, looked around at the cost of housing, and said, "I'm not going to stay. I can do better in North Dakota. I can do better in Iowa." And so it's affecting our ability to attract the best and the brightest for our workforce as well.

WEINHAGEN: We're seeing the same thing in the private sector -- affordability has always been one of our key attractiveness issues in this market. That is eroding, and not just with our neighboring states. As we benchmark against regions across the country, we're starting to come more in line. We're not to the level of San Francisco or Seattle, but certainly when you look at wages and kind of the global affordability of this marketplace, it has changed measurably in the last 10 years.

TRONTVET: We can't help but get involved in this whole issue because we're a private employer in a community that's kind of underserved in terms of housing. We grew this year from \$2.3 billion in annual sales to \$3.2 billion. So we're in the top ten of the fastest growing private companies in Minnesota. We have 2,500 employees.

Let's say 3,500 employees would report to the Thief River Falls location. Being our community only has a population of 8,500, it's presenting a unique problem for us to find housing for these people. We've added 350 new jobs in the past year-plus. Those aren't replacing turnover. Where do these people live? And so we need all kinds of housing, but our biggest need is the affordable market-rate rental housing. Attracting developers to a small community in northern Minnesota where they can't spread their risk across a number of enterprises, and they have to kind of say, "Textron, Digi-Key, Sanford Hospital, you're the biggest employers in town. Can we trust that you're going to be here? Can we trust that you're going to grow?" And we say, yeah, we're building a 2.2-million-square-foot building with help from the Minnesota legislature in terms of sales tax



Submitted photo: CBRE

The Gates of Rochester apartment complex at 2015 41st St. NW in Rochester offers townhome-style units that rent for \$809 to \$1,099 per month. A Colorado investor paid \$34 million for the complex in December.

refunds, and we're here to stay.

Now let's get the job done, and let's get some housing for these people. And some of the developers have a niche market in outstate, and they're seeing the potential. But others just say they can't make their pro formas work in these rural markets. They can't afford to be in a high-risk market like that. So we struggle with attracting developers to embrace our market.

JOHNSON: What is the incentive for developers to ramp up production of affordable units? In the metro, luxury units have been the way to go. We're going to put a ton of amenities in here. We're going to attract those young workers. And they're not affordable. Even mid-career professionals can't get into these buildings. So again, what's the incentive?

TRONTVET: We seek out developers who are feeling like they're oversaturated in some markets. We just attracted a developer to Thief River Falls who felt like the Fargo market wasn't there for them anymore. It's overbuilt a little bit. I think one of the strategies is finding developers who feel like they're overbuilding in their current markets, who aren't afraid of a small market.

We also feel like it's an ecosystem. So at a wage of \$16.50 an hour, some of the rent rates are up in the \$1,000, \$1,100 a month rent rate for these new apartments that are going into, a three-bedroom. That's okay. The \$16.50 an hour folks, if they live together, they can maybe afford it. If they don't, we don't mind if somebody from an apartment building moves into these brand-new units and takes on the \$1,100 rent so that their vacancy can create an opportunity for these people.

KISCADEN: The question was how to create incentives for the developers in the affordable housing market, and I guess my head goes immediately to all the disincentives

for them. What the developers and our community tell us is that they aren't building anything for less than \$250,000 now. I just met with a developer last week who told me that a 1,700-square-foot house that was built on a slab could be sold for \$350,000.

I'm a developer. When I put capital into developing a property, my capital is tied up. If that house doesn't sell, my capital is tied up. I don't want to take that risk. I want to develop and sell homes that I know the market's going to turn over quickly, where I'm going to get my money back and go.

Then there are a lot of front costs before you start with no matter what's the size of the property. There's lot size requirements. If it's a new development, we still have land for new development. All the costs of putting in that infrastructure goes to the developer before they've even started designing the house. The codes and the requirements that we have add costs. We have park fees that add cost. In the Twin Cities, I think it's up to 24 percent of the costs are from governmental requirements.

I was presenting for the Association of Minnesota Counties, and some of the smaller counties said, "We don't have the money to put into that infrastructure to develop just to get lots ready. We can't even do that." And then other people said they did that, but they can't get the developers to come. And they aren't going to build the size houses that people can afford because they don't want to stand the risk.

We're looking at what we can do. Through our Coalition for Housing in Rochester, where we buy down some of the risk for the developers of those smaller properties, can we convince our city to allow a design a whole development with some townhouses, some single-family homes, some multi-family, and with some of the single-family homes? Can we have it designed so that you could convert a room over the

garage to an accessory apartment, or you could have a shared housing that way?

We're really focused on stick-built, and I think it was Cecil Smith who was talking to us about factory-built homes and what's happening in California and other places where you can really drive down the cost, just like building a hotel where you bring in units that are pretty much preconstructed and assemble them on-site instead of doing stick-built.

We have to innovate, and that's one of the reasons that the task force calls for two things to happen. One is that we convene a very serious follow-up look at how we streamline our regulatory array in Minnesota. It might be really nice to have those windows that only open six inches high on the second story to prevent a child from falling out, but you're adding \$2,000 of cost to every house you're building, then making a house unaffordable for a family with young children to even move in there. And we're calling for the creation of a Center for Innovation in Housing. This is a problem all over the country.

WEINHAGEN: One of the things that translates to the metro area and multi-unit developers is that it's effectively the same price to develop an affordable unit as it is a market-rate unit. That's why you're seeing thousands of units go up every year. What is the role of the private developer in curating and building a supply of affordable housing? It's a big question. The private developer is in the business of making money, making a return on their capital. You talked about tying up capital? These are big, complex, \$60 million multi-unit projects, and as much as we might like an institutional investor to think about the impact that affordability will have on a community, they're sitting with a spreadsheet looking at a project in Minneapolis, a project in Shakopee, a project in Denver, measuring risk, and they're gonna tie up that capital for a period of time.

We do need to get creative on the regulatory space. We need to think about the amount of time it takes a permit to go through in the urban core, and zoning and the requirements to get a project online. If we could strip away some of those soft costs, we'd be much more likely to see affordability driven up.

TRONTVET: There's two incentives and one disincentive that I think of. The two incentives are a revolving loan pool concept that might help young families avoid the mortgage insurance premium by having employers make investments that are tax-deductible, and then the mortgage insurance premium can go away in part or in whole or more quickly and at a lower interest rate, they can pay back that gap financing that employers can earmark toward their employees within that fund.

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That's an option that's happening in northwestern Minnesota.

One of the disincentives that I'd like to really make sure people understand is that if we're going to have the legislative appropriations or grants or loans that happen for housing, outstate or metro, one of the big problems historically has been the prevailing wage requirement that's tagged to that. In Pennington County, they had to do horse-trading with the city, give the city the money, and then the city had to give the developer a break because if he accepted the money and used a prevailing wage concept, the pro forma wouldn't work. So if the state's going to provide assistance in any form, which although sounds like an incentive, it ends up potentially being a disincentive.

The other thing I'll just say is, private employers are getting more involved. We lease and sublease apartments for incoming folks, for consultants, in part to incentivize developers to do something in our community. They'd like us to do more. We don't want to get into the apartment building business or the housing business. But we can do some things in terms of buying or renting units and then subleasing to people that we have interest in.

SAHLI: I think one of the opportunities that came from the task force is increased attention on the issue of housing and being able to bring new partners to the table to get at exactly the kinds of challenges they talked about. For example, on the question of speed and the development process, zoning entitlements, all of those, city and counties are struggling. They are motivated to come to the table and have a discussion about how interests can align. And I'm really excited about that work.

We are defining our work, I think, collectively. We need private developers to be a part of the solution. We need employers to be a part of the solution. We need all levels of government to be a part of the solution. It's not just a state strategy or a legislative strategy. It has to come from many different places, and I think that's part of what you see in all of us here today is kind of our own perspective on why it's important.

KISCADEN: And we need flexibility at the local level. With so many restrictions on what you can do and how you can do things, one of our recommendations is to try and -- just like you've tailored to your unique needs of a community of, what did you say, 8,500?

TRONTVET: 8,500 residents.

KISCADEN: We're a fast-growing community of 115,000. Our needs are a little bit different.

WEINHAGEN: I think you hit on something. A key outcome of the



Jonathan Weinhangen and Ellen Sahli listen during the discussion.

task force is the visibility that it brought to the issue. And housing is a workforce issue. This is something that was not on the radar for many of us in the employer community or private sector three to five years ago. And talking about housing as a competitiveness issue, talking about housing as a workforce issue, in a time where we've spent the last decade running around and talking about our worker shortage, we're feeling it greater than ever. How does housing play into that? And just bringing the players to the table to begin having conversations about, is there a role for the employer community?

We've seen little microcosms. The Mayo is a good example. They've historically provided some incentives in the housing space for people they're trying to attract. That hasn't been a universal benefit, but it's something that I think employers certainly in the metro are starting to talk about. Should we be providing as part of our suite of benefits along with health care, PTO and maternity leave? Maybe a housing stipend is a benefit that you provide to attract talent.

TRONTVET: We actually provide housing stipends for incoming workers that move to our area from outside a 60-mile radius. And these are team members who are entry level.

When I moved to Thief River Falls, I got some housing assistance in a mid- to upper-level management role. Well, you would think that would be normal to get a little help, a commercial move or to help with your housing. But to do it at the direct labor level shows that there's a need. We have our HR department constantly collecting landlord information. But there's no supply.

SAHLI: The same conversation about a shared perspective is happening within the education arena, within the health care arena as well. As we know, children, families do better around educational outcomes with the stability of housing. They do much

better in health outcomes with the stability of housing.

KISCADEN: As counties, we deal with the people that are needing assistance, and we know that our population is aging. We aren't really doing very well to help seniors think about their longer-term needs.

But we know that if people can live independently, it saves an enormous amount for the taxpayer. If they don't need long-term care, and they don't need to move into assisted living, and a lot of that's preventable by the kind of housing that people live in.

I just spoke to a Kiwanis group in town, and I did this little AARP housing survey with them. I was just astounded. I asked them, "How are you preparing?" Of that group of 30, 25 of them had been in their homes for 45 years or more. They've been so insulated from the housing market that now when they're ready to make a move, it is so totally shocking. You have to move out of that little three-bedroom rambler that you've lived in forever and you can't even buy a townhouse without a mortgage. Who wants a mortgage when you're 75 or 80?

How do we provide affordable senior housing that allows people to live independently and really does meet the needs of the senior population?

WEINHAGEN: I think you've hit on something really important, which are the social determinants of health and how it impacts our aging population and the incredible cost that is borne by our counties. Employee absence and turnover is incredibly expensive. And when you think about tying that to stability to housing and kind of the upward impact that it has for a private employer who can retain the employee longer, there's a direct impact.

KISCADEN: And the middle-aged worker who doesn't have to go take care of mom. That's a productivity issue for the employer as well.

TRONTVET: One of the problems

in our area is finding contractors. Maybe what we need to do is get the MnSCU system to begin a Chip and Joanna Gaines house-flipping curriculum. If folks who love decor, renovation, a little bit of contracting on the side can oversee it and make money on a flip, that could help many of the three-bedroom ramblers in our community that are being rapidly vacated by the Baby Boomer generation moving into transitional housing.

We've got very limited transitional housing for seniors. There is a wealth of opportunity for these young families moving into our community to get into affordable homes that could be flipped. The flipper can make money on it. The young family sees a cool vibe in a small rambler that's got an open concept and the cool stuff they're looking for. Let's develop a little cottage industry around house flipping. Everybody wins. They could make a little profit off of each flip.

SAHLI: That highlights another key recommendation coming out of the task force — to grow the talent pool in the trades. If we're talking about increasing production, who is going to build it? And off-site construction will help a little bit, but we need more people actively engaged in this to be able to deliver.

WEINHAGEN: It'll drive down the costs too. One of the things we're seeing right now from construction materials to labor, it is off the charts. And I think that's another supply issue.

KISCADEN: The recession of 2008, when all construction went like this, those workers who were very busy found other employment. And so now we also have to really concentrate on regaining the skilled labor force for the building trades. Where I live, if you have a little project that you need to get done on your home, you can't find the labor. Homes have an expiration date. And if they're not maintained, they expire a lot faster, but we don't think about that in the same way that you think about having to replace your washer and dryer. At some point, there are major repairs that need to be done to homes, and there are lower-income folks often don't have that capacity to keep the roof up.

TRONTVET: I think young people coming out of high school, we want them to go into electronics and careers in electronics, but I also think that if they're forward-thinking, and they can get some acumen in business and trades, they could really establish a platform for regenerating tired housing. The problem is capitalizing those few people. If they could come out and be capitalized somehow and do some of this work through private-public partnerships, it would be wonderful to see that as an emerging business.

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JOHNSON: Going through this summary portion of the report, it says the last four years have been a success for preserving, creating and underwriting affordable housing. Meanwhile, I've got the mayors in both the big cities here screaming crisis. If this is what success looks like, do we have a new recipe for success for the next four years?

SAHLI: One of the challenges we're experiencing on the supply side that impacts vacancy rates and all of the issues that we just talked about is, housing production basically ground to a halt after the recession. We have a huge backlog. The task force report says we're behind something like 50,000 units. While production levels might have been high last year, we're still at a deficit. Combined with loss of units or loss of affordable units through upscaling in the marketplace, it doesn't matter how fast we build affordable units if we're losing them on the back end.

We need more housing production. We need more diverse housing types. It has to look a little different. It can't be all high rises. It has to be for sale and rental, and it has to be at all price points.

WEINHAGEN: We also have to recognize that wage growth has been

stagnant, particularly for our lowest wage earners, while housing across the continuum has grown somewhat exponentially over the course of last two decades. More of people's income is being eaten up by their housing costs. That's why you start to have conversations about moving from 80 percent to 60 percent to 30 percent AMI as being what is truly affordable for some people in our communities.

TRONTVET: I think another creative solution is, in our rural area, finding ways to kind of get a two for one. We've got a downtown that's kind of fading quickly. You could create a vibe downtown, where you've got some retail. You bring back the big boxes. Even in our town, Walmart moved in to the edge of town or came in at the edge of town, and everything kind of goes out in terms of retail and dining and all that. But create a downtown environment where housing factors in. Smaller, creative housing that's maybe more efficiency, that has a cool vibe where people want to live and want to go downstairs to the market or to the restaurants, and the two for one concept is, for our community, really important to have.

KISCADEN: Rochester is succeeding in doing that right now. And it's

a big change for us in the last five years to start thinking about that.

The average age of people who lived downtown was 70 because we had some high rises that were built with federal funds for seniors. But now with the Downtown Alliance working on it, we have a lot more restaurants, things to do downtown, and we've been building some housing now with those little micro-units of about 400 square feet. It works, and there are seniors moving down because they like the vibe and the things to do there.

SAHLI: The number of single-person households is on the rise. That lends itself to a kind of more comprehensive strategy. What draws somebody to a community? What keeps people in a community? And I think that will be an important part of our workforce development as well to make sure that we're keeping all those younger individuals and young families in the area.

TRONTVET: We have a purchase agreement on one of our oldest buildings downtown now, and we're just ecstatic. And we have to hear more about what they're going to do, but there's a rumor that it's going to be loft apartments and a community room for rent and also maybe potentially a restaurant, and

that would just be an absolute home run. That mixed-use development is really important for a small town.

JOHNSON: What I'm getting from this conversation is that the next four years has a lot to do to attracting developers to opportunities. Whether it be going out to North Dakota and finding people who are tired of that market there and leading to Thief River Falls. How can we make 30 percent AMI work for you? Believe me, I've talked to all the developers out there, and it doesn't work for them.

WEINHAGEN: It barely works for the nonprofit developers who are highly subsidized.

JOHNSON: Right, and they'll throw in a couple units, but this is the reality. There are just a ton of jobs out there that pay ten bucks and less, and there's just nothing to afford out there. So who's going to do all this? Who's going to go find these developers, first of all, to attract them to opportunities?

WEINHAGEN: The first step to recovery is admitting that you have a problem. And we're just starting to do that.

KISCADEN: Second is, you have to have some viable solutions.

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And we've concluded that there's not a single solution. There's a lot of solutions. One of the things that I'm most encouraged about is that the task force work was supported by the Itasca Project. It was supported by some very key Minnesota foundations. It was supported by state government. It had representatives of local government. And it's a multi-sector, multi-strategy, multi-solution approach. That starts with creating the awareness. So the work that you're doing in this article will be helpful, but we really have to build that acknowledgment that we have a serious problem and start to build some understanding of the scope. You can't wait for someone else to solve it.

WEINHAGEN: In the metro area, we're seeing unit production. It is market rate and sometimes luxury market rate. We just had a presentation yesterday at the Downtown Council of three new condo developments, high-end condo developments, that are going online. That's a good thing when we talk about housing generally. It's more supply.

We have to solve the issue around affordable housing as a product. And it becomes much more challenging, particularly when you get extremely affordable, for private developers to make the pro forma work. And that's where, with organizations like the Family Housing Fund, we need to subsidize, incentivize, and really kind of laser focus the resources that we have.

I completely agree with your assertion that it's multi-strategy. We need to make sure that we don't cut off a market that is working to try to solve for a product that needs to be looked at differently.

SAHLI: And you can't expect that everybody is going to be a part of the total solution. There will be logical players who will step forward and say, "This service-enriched housing model for people who are at zero to 30 percent area median income, that's my space." Another developer might be doing something else, but all of it together is the kind of impact that we're trying to achieve.

Sheila mentioned Prosperity's Front Door is coming out of the Governor's Task Force, really making sure that all of the energy that was created and all these good suggestions get implemented. Continuing this discussion with business leaders, with these other circles of industries that have a stake in this, is an important part of this work to make sure it becomes alive for everyone.

WEINHAGEN: And educate our policymakers across the state so that they don't try to create solutions that ultimately create challenges. We're dealing with that right now

with inclusionary zoning in the city of Minneapolis, and the developer community has come together. But they want to make sure that it doesn't create a space where you go from producing, you know, 6,000 units down to 600 units a year, as happened in Portland. So how do we create a system that works to continue to production?

JOHNSON: If you need to sell this constituency on all this, it's middle-class taxpayers, homeowners and businesses. We're talking \$1.3 billion spent last year, more billions of dollars being spent. This is tax money that these folks have paid. We can see in the City of Minneapolis wound up with \$40 million and that will come out of the general fund.

WEINHAGEN: \$71 million in St. Paul over three years.

JOHNSON: That'll come out of property taxes. For taxpayers, what is their incentive for subsidizing development of affordable housing units?

SAHLI: It is not an issue that only impacts low-income families. I think that's the key thing that we heard going around the state is, at all income levels, people are struggling with finding the right kind of product that matches their family needs in an escalating housing market. It wasn't unusual to see how many times a middle-class family put a bid on a house and lost it, how many times that they're bidding, so that shortage impacts everyone.

Rick (Trontvet), your comments are right on point about what that means to all levels within an employee base. Once we can tell the story and how we're talking about it, that does make the case for an everyday citizen.

TRONTVET: Tax increment financing in our little community is something that we need to educate our residents on. Whenever there's some kind of a tax for redevelopment or whatever it is, the response is, "Oh, you're using my money to give somebody else an abatement so they can build a building or regenerate a building."

And we say if that company hadn't come in and done this, we would not have a tax stream from that company in the future, so give them three years to do this. There'll be a tax stream after three years that will add to our overall tax collections. It would be very easy for me to imagine my next-door neighbor not having any clue about the advantage for them in the future because they're just going to be part of a broader levy down the road once that developer gets in.

WEINHAGEN: I want to jump back to the social determinants of health. The data tells us that people who are in stable homes are healthier. If we could drive some of those costs out

of the system through housing, it could be a net neutral.

KISCADEN: We have a lot of concern about educational disparities in our state. And we know that if the child is in an environment where they don't have a stable home, they fall academically behind, and that has a consequence long term and short term for the taxpayer. We need people who will get through the K-12 system and be prepared to take the next level of training so that they can be full members of the workforce.

WEINHAGEN: And pay income taxes and contribute.

KISCADEN: Right. And for most middle-class people, our home is our major source of wealth. And so we have a high percentage of homeownership in Minnesota, but if you're low income, you're paying high rent, or you can't afford to buy a house, and you end up worse off. And the community ends up worse off.

I was just with the transition coordinator for the Rochester Public Schools, and she says that we have about 400 students out of our 1,600 who don't have a permanent home. And those young people fall behind. We spent a lot of time and effort trying to reach out and keep them -- help overcome that gap.

JOHNSON: We've seen interest rates continue to go up. And that makes houses even more unaffordable. How do you fight that?

SAHLI: And it impacts developers too who can't sell their homes. It's difficult to finance a multi-family development with a higher interest rate. So it has implications throughout the entire system. It becomes just one of those other costs that we're managing for.

TRONTVET: I think the consumer just moves to the next option. My son just finished his anesthesia nursing program and took a contract with a hospital in Grand Forks. And it was fun to go through some housing options for him and his wife. They were qualified for two houses, but they went with the lower-priced house. Now, seven months ago? He would have bought the higher-priced house, because it made that much difference in his house payment.

What I get concerned about is, what about the lower end of the housing range?

WEINHAGEN: Interest rates are linked with debt to income, so when you talk about student loan debt and a generation of future homeowners coming into the marketplace, that's going to have an impact across the spectrum. People who may have thought they'd get out of college and buy a \$250,000 house are going to rent for three or four years while

they grow in their jobs and create an income that can support a purchase.

SAHLI: This drives home the point about what we can control, where we can make progress. We might not be able to control the interest rates in this room, in our communities. But we can control some of the other things like how fast development happens, because time is a driver of cost. Can we create other incentives, like in labor, for example, to grow the labor pool to get some efficiencies?

Can we create more options around off-site construction that allows us to deliver product quickly into the marketplace? The longer you're in construction, the longer units aren't sold or rented. I think the rising interest rate environment just really underscores that we need to be thinking creatively about this problem and doing all that we can within our authority, as communities or as the state, to make sure that we're not part of the problem.

WEINHAGEN: And can we, you know, get to a point where we stop reading headlines in Finance & Commerce about how a local community prevented a project from moving forward? We see that time and time again, and it's a tiny little issue at a planning commission or a zoning commission that prevents the production of new units.

TRONTVET: I have a friend in South Dakota, who is on the cutting edge of housing. He's trying to raise some capital to start a business to do a broader, widespread modular housing manufacturing. And he said that you have to look to Europe to find the innovation there.

We're talking about getting a development site, whether it's a hotel or an apartment building, and getting that thing erected like a Tinker Toy set, and then getting out. And in Europe, it's vast. They do it all the time. They put up buildings in a matter of weeks. Here, we camp out on a site for six months and slowly watch this thing go up. And using the innovations in manufacturing and the Lean Six Sigma and Quality and getting that back, the precision of these buildings in Europe are much better because everything fits together precisely. When you're out in the cold in Minnesota and you're trying to build a building, it's easier to cut corners, right?

Minnesota has an opportunity to look to Europe and bring it to Minnesota, and we could be a national leader in modular development for multi-use, not just homes.

JOHNSON: A balanced market is considered to be 5 percent vacancy. We're nowhere near that and haven't been for quite a while. And you were talking about the

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speed of development, getting things out of the developer's way so they can get their projects up faster. Can we actually incentivize multi-housing developers to build rental housing up to a much higher vacancy level whereupon building owners will drop their rents or they'll stop increasing them so quickly? Because right now, there is no reason for building owners to expect that their rent growth will drop off.

SAHLI: A couple things. First, supply drives vacancy rate. So we need to really increase supply across the state with all kinds of housing. That will help stabilize rents as well. And I think there are some other things that are driving towards increase in rents, and we also have to pay attention to those. So it's not just the supply, but other cost drivers like increased property taxes and increased energy costs that contribute to rising rents.

Part of what we're trying to really be precise about is getting to the kinds of interventions that solve for all of those things. Property tax is another example that I think we have to look at very closely, energy costs, and how we can help invest in long-term sustainability to cap energy costs. Those are big drivers for rent increases as well.

WEINHAGEN: Property taxes are particularly felt in our center cities where you see double-digit levy increases year over year. That's being passed along to the renter.

KISCADEN: Your question, for me, fits better as a strategy for an urban area than it does for Greater Minnesota. I remember hearing that it was, I think, Austin had not built any multifamily housing in 40 years, so Hormel Foundation has this new research institute that's in relationship with the University of Minnesota. And they built a lovely apartment right next to the institute so that they could attract in the young professionals they need for their research institute.

Dodge Center has a company called McNeilus, which is now owned by Oshkosh, and they make cabs for garbage trucks and cement trucks. They cannot get workers. They have 70 percent turnover. So they are bringing in people from Puerto Rico. And they are providing housing for them in residence hotels in Rochester and transporting them by bus out to Dodge Center. Now, I don't know what the barriers are in Dodge Center and Dodge County for building housing for those folks, if I were running McNeilus, I would try to find ways to get those people to move permanently to Minnesota. I would understand that they'd probably want to live in some kind of an immigrant enclave for a while, because it helps everybody adjust, but Dodge Center isn't very big. Could there not be some fairly modest homes built in Dodge



Submitted photo

Digi-Key has had problems finding housing for all of its workers as it grows in Thief River Falls. This photo shows the company's headquarters in 2015.

Center that the company could help subsidize so the families come and not just the workers?

What kind of connection are those workers going to have to their place of employment or to the community where they're living because they're not really in the community? They're at a residence hotel on the edge of town. So, for us, there isn't enough multifamily housing that that market strategy would work. Maybe in Rochester.

We did this Maxfield study in 2013, and we were projecting that, for people at about 60 percent to 80 percent of median income, we needed 1,700 units of housing, and we're at about 900 now. That's a lot of growth for a community our size. Still only 50 percent of where we are projected to need to be. But we have capacity, and we have the draw because of all the other things happening in our community to bring the developers in. Dodge Center doesn't.

TRONTVET: In Thief River Falls, we're trying to reshape the thinking of the developer by saying, Hey, look, we're committed to Thief River, building a 2 million-square-foot facility. You can trust we're going to be here a while. When you build the 2.2 million-square-foot building in Thief River, the developer says, "Oh, there's something going on there. I think I can put a building there, and I'm gonna get ten years out of it."

If I'm a developer, I want to go where the revenue is. I want to go where there's some security, where I don't have to worry about half my building being vacant after the first two years, even though right now there's a gold rush to Dodge City. Is it going to be that way in three years?

WEINHAGEN: That's why you're seeing such demand in the metro area, and so many projects that are going up. To your question, I'd reframe it a little bit. Are we

disincentivizing developers because we've got this hot market where rental rates are increasing? Do we not want to create the supply to, you know, stabilize or decrease rental rates? I think the demand is such right now that we can't build inventory fast enough in this metro area to reach a level of stabilization. The market is a very powerful thing, and the developer market is going to continue to build units in this market until demand dries up.

JOHNSON: I have just two last things here.

WEINHAGEN: Is one of them about mobility and transit?

JOHNSON: It is in fact.

WEINHAGEN: Great. Because I was going to answer a question about that whether or not you asked it.

JOHNSON: OK, then talk about mobility and transit and how that can play into affordable housing for the workers.

WEINHAGEN: Everybody knows where I stand on this. We need an "all of the above" approach to transit and transportation. We need to be making investments in our roads and bridges. We need to be thinking about a robust multi-modal transit system, not just in the metro but across the state. I understand Digi-Key is running daily shuttles to Crookston and Grand Forks?

TRONTVET: Yeah, we shuttle to other labor markets because we need more labor market cap in there, so we have subsidized that.

WEINHAGEN: We talk about multi-intervention approaches to housing. Mobility is a big piece of that -- making sure that if they can't afford to live in the core business district that's close to opportunity, that they can live in the suburbs or the exurbs and commute in without adding the incremental cost.

We should be talking about affordability in aggregate: Groceries,

energy, transportation, housing. If you're working in downtown Minneapolis and your housing affordability is in Shakopee but you're spending an increment on mobility that, in aggregate, would have made it cheaper to rent an apartment in Minneapolis, have we solved anything? Robust investment in transit infrastructure is critical to this housing equation.

SAHLI: I think it also is important to recognize that there are job centers in many places that lack affordability in terms of options. And we have to equally think about transit, getting folks who are living in affordable place to those. But I think that's an equally important part of that equation, not just looking at affordability or areas that aren't affordable, but, rather, where the jobs are and how we can build out options for people either to get there or to live there easily.

KISCADEN: Rochester has 115,000 people by the last count, and we have that many jobs, approximately. We have 50,000 people who commute in to work in Rochester every day. They come from a 60-mile radius.

We are building transit mobility hubs in Rochester, because with our downtown redevelopment and the growth of Mayo, we're having terrible traffic congestion. So we'll be building mobility hubs on the edge of town.

The rule of thumb right now is, you should be adding your transportation cost and your housing cost together, and it should be no more than 45 percent of your income. But we have people who commute out every day from Rochester to Spring Grove and Austin and Winona and everywhere to work. We don't have any regional transit except the individual automobile.

You have 11 counties maybe 60 municipalities. They all have different interests, and Rochester's the big kahuna in the middle. We have Seneca Foods, AMPI Dairy, Seneca's selling out of Rochester now.

Kemp's Dairy. But all you hear about is health care.

How do we talk about getting people to and from their place of employment to their home? And how do we make sure that the Rushfords and the Spring Groves and the St. Charleses also have the opportunity to get economic benefit and development benefit from those commuters? And it isn't building park-and-rides along the interstates. It's really talking about how you create a transit point where you have a day care and a grocery store and a library so that the people are connected to community and not to highways. We don't even know how to begin to have that conversation.

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People will say they don't have to live here. And many people don't. They'd rather live in a smaller community where there's a stronger sense of community, smaller schools. We want people to be able to choose where they'd like to live and find housing affordable where they'd like to live, but we need to think about this as a regional issue so that the economic vitality of an entire region, the way that we build transit connections for an entire region, helps everybody.

JOHNSON: People will generally acknowledge that there's a housing crisis in Minnesota. How long is it going to take to fix it?

SAHLI: One of the things that the task force said is that we need to dramatically increase our supply within the next five years to fix this backlog. One of the first markers is a five-year time frame for that increased production.

Some of the challenges we're facing will require more work and more energy and time to get there. But we have to start. We have to start really tackling this in a bold way. And I think that will then propel some new innovations that even go beyond what we originally talked about. One great idea will lead to another.

WEINHAGEN: And it does have to be sustained, right? Because we know this crisis didn't occur overnight. In fact, we're still trying to catch up from the last recession and kind of the downturn in project development, and we know that we're continuing to have population growth. The state's population has increased 5 percent and continues to increase. The metro region is projected to add 750,000 additional residents by 2040. So that compounds the need. So if we build at our current pace or even in this five-year projection, we're still going to continue to need to reevaluate and think about what production looks like to keep up with population growth.

TRONTVET: Companies will just do what they need to do. When you grow at a certain rate, and you can't get people into housing, at some point, it's just kind of a supply-demand thing. You need to pivot and expand somewhere where there is available housing. As far as urgency, I think it's going to be something we deal with. Five years from now, we're going to be talking about the same thing, but we have to keep trying.

We did our expansion in Minnesota, and we're creating \$188 million

dollars in fiscal revenues for the state of Minnesota than if we would have expanded in another state. But if we keep growing, can we stay in Minnesota? If we can do more with housing and some of these transit issues, then we'll be here longer.

Minnesota has an opportunity. The more we keep up with these issues, the longer we can keep our home state companies from having to go somewhere else. We're not pulling the whole company up, but we have to expand somewhere.

WEINHAGEN: It's easier to do that than it ever has been. We do operate in a global economy, and we have to recognize that these are competitiveness issues. We are competing sort of not with other cities necessarily in the state, but we're competing with neighboring states. We're competing with Denver and Portland and Austin.

KISCADEN: We haven't had a consensus or a community awareness that we're all in this. We have viewed your home as a private decision. But, really, homes for Minnesotans is a business imperative, as well as a personal imperative, as well as a government imperative. We're all in this together, and this recognition that there's an

interdependence, is something that we can't ignore it any more than we ignore our highways.

WEINHAGEN: Ellen (Sahli), you've been in this space for your whole career. Could you have imagined a future where the business community would be leaning in in the way that they are today? And that pivot has happened very quickly. It was like, we've got a crisis here. Everybody is starting to pull in the same direction. And that doesn't always happen.

TRONTVET: As we grow, we have more interdependencies than ever before. We received assistance to build our building from the state of Minnesota, because it didn't make any economic sense to do it here because our logistics, road infrastructure, our labor market up north.

Whether it's child care, housing, transit, whatever, we have to be in these conversations in order to be competitive. I think businesses, even beyond Digi-Key, are finding that either you get on the train of interdependency and collaboration, or you lose.

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