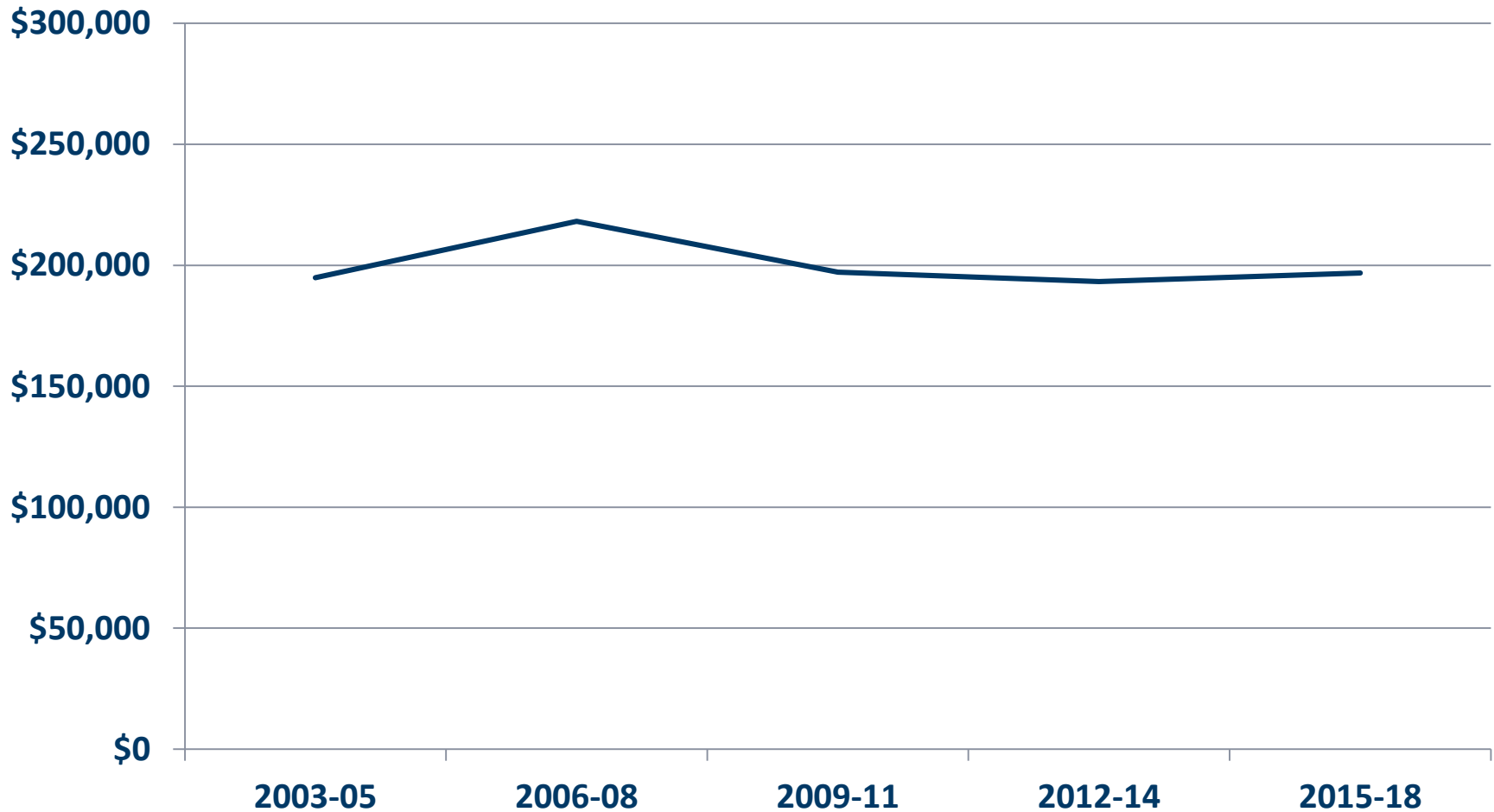




Balancing Cost Containment and Other Policy Goals

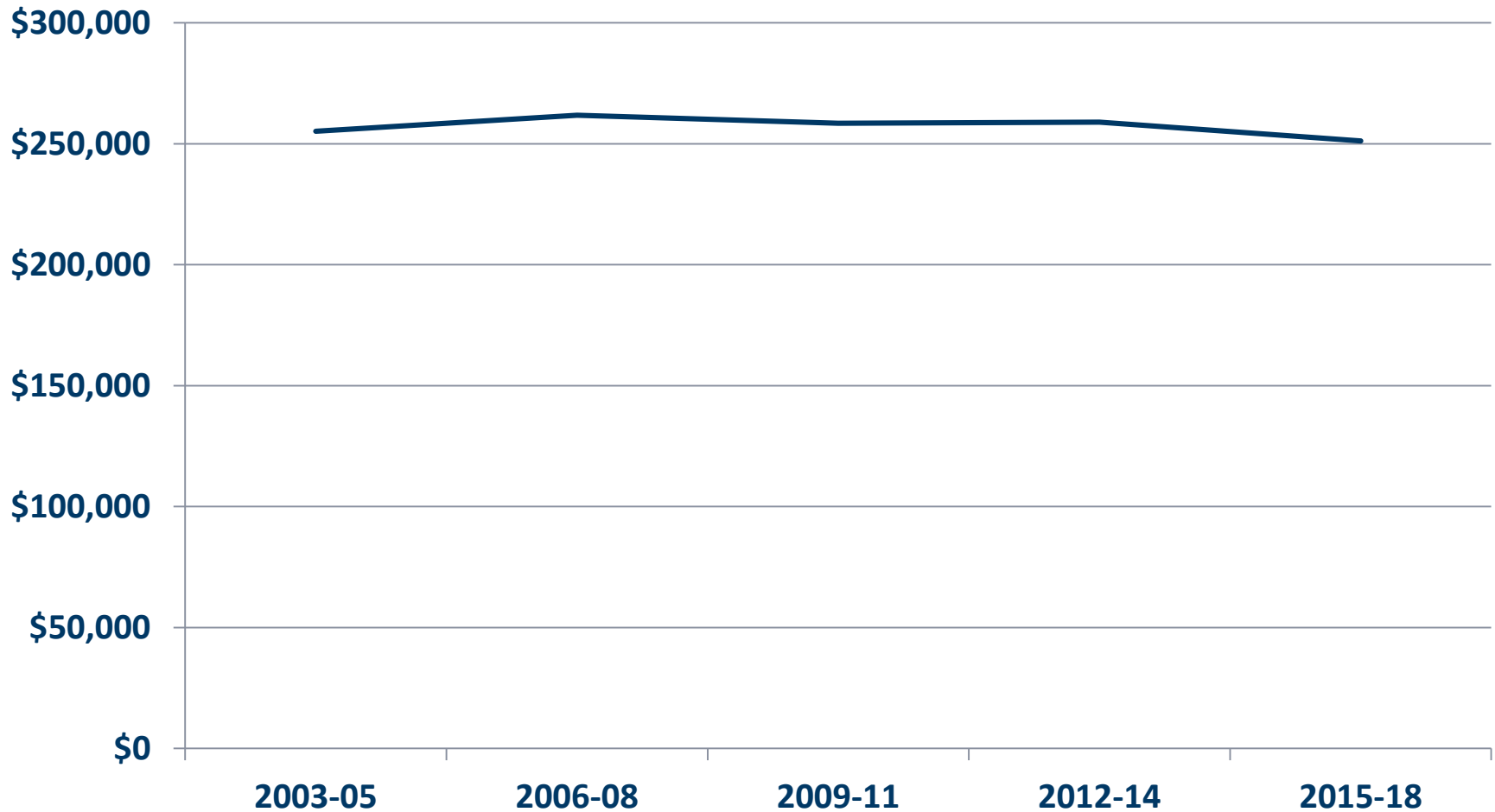
October 21, 2019

Average TDC per Unit: All Developments (New Construction and Rehab)



Construction Inflation Adjusted (materials and labor) – 2019 \$

Average TDC per Unit: Twin Cities, New Construction with Tax Credits



Construction Inflation Adjusted (materials and labor) – 2019 \$

Policy Changes that Would Increase Costs

Increased priority or requirement for:

1. Supportive housing (2003)
2. Enterprise Green Communities (2007)
3. Location efficiency/geographical choice (2010-18)
4. Larger family units (2018)

Strategies for Containing Costs

Three Pronged Approach:

1. Assess the cost reasonableness of each project with our predictive cost model (2006)
2. Incent cost reductions with cost containment points in the selection process (2014)
3. Address systemic cost drives (2014)

1. Predictive Cost Model

Assess Cost Reasonableness

- Regression analysis using over 20 characteristics of developments to predict TDC per unit
- Various combinations of the following factors:
 - Activity Type (New Construction, Rehab, Conversion)
 - Level of Rehab
 - Building Type (Walkup, Elevator, Townhome, SF Home/Duplex)
 - Number of Stories
 - Average Unit Size
 - Gross Square Footage
 - Location
 - Year Built
 - Garage Type
 - Acquisition (land and/or structure)
 - Number of Funding Sources
 - Tax Credit Financing
 - Historic Preservation
 - Environmental Abatement
 - Predominantly Supportive Housing
- Proposed costs need to be within 25% of predicted costs, otherwise waiver needed

2. Cost Containment Selection Points Incent Cost Reduction

Blind Competition

- 6 points to the 50% of proposed developments with the lowest TDC per unit
- Four competition pools
 - New construction in Twin Cities metro area
 - New construction in Greater Minnesota
 - Rehabilitation in Twin Cities metro
 - Rehabilitation in Greater Minnesota
- Cost adjustments to account for unit size differences
- Negative 4 points (next application) if actual costs above threshold

2. Cost Containment Selection Points

Cost has Fewer Points than Other Policy Goals

Criteria	Points	Criteria	Points
1. Preservation	30	13. Large Family	7
2. Rental Assistance	26	14. Intermediary Costs	6
3. Unacceptable Practices	-25	15. Workforce Housing (job growth)	6
4. Supportive Housing for Homeless	22	16. Cost Containment	6
5. Financial Readiness to Proceed / Leveraged Funds	16	17. Higher Performing Schools	4
6. Lowest Income / Rent Reduction	13	18. Community Development Initiative	3
7. People with Disabilities	10	19. Minority/Women-Owned Business	3
8. Other Contributions	10	20. Universal Design	3
9. Rural/Tribal	10	21. Smoke Free Building	1
10. Economic Integration (higher income)	9	22. QCT / Community Revitalization	1
11. Location Efficiency (transit and walkable)	9	23. Eventual Tenant Ownership	1
12. Long-Term Affordability	9		

2. Cost Containment Selection Points Durability and Energy Efficiency

Don't want cost containment to be a race to the bottom, sacrificing durability and other goals for cost

- Design Standards – Minimum Standards

“The purpose is to ensure multifamily rental housing financed by Minnesota Housing is of decent quality, energy efficient, functional, sustainable and effective in reducing long-term maintenance costs.”

- Enterprise Green Communities (MN Overlay):

- Meet all mandatory criteria

- Achieve at least 35 points from optional criteria (threshold for new construction)

- Reviewed by our architects

2. Cost Containment Selection Points Energy Efficiency Beyond Green Communities

- Lack incentives to be more energy efficient or sustainable than the Green Communities Standards or to use alternative energy sources (such as solar)
- Initial change with the 2021 QAP:
 - 2 points for reaching 105 optional points
 - 1 point for reaching 70 optional points
(thresholds for new construction)
- Refine approach with subsequent QAPs

3. Address Systemic Cost Drivers

- Local regulations and processes
 - Best practices for getting local best practices implemented
- Selection process adding complexity, uncertainty and delays
 - Redesign our selection and funding processes
- Design and construction standards
 - Assessment of our standards with a cost lens
- Construction speed and productivity
 - Construction Revolution Summit – brought industry leaders together to create an action plan to bring offsite construction to scale in MN

Outstanding Issue

Lifecycle Costs, not just Upfront Costs

- Need to factor in ongoing maintenance and operating expenses
 - Durability
 - Utility Costs
- Lifecycle cost savings need to be valid and verifiable
 - Reporting and benchmarking

For More Information

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