



**Date:** December 8, 2022

**To:** Chair and Commissioners of the Edina Housing and Redevelopment Authority

**From:** Stephanie Hawkinson, Affordable Housing Development Manager

**Subject:** Proposed Amendments to the New Multi-Family Affordable Housing Policy

## **Information / Background:**

In 2015 the Edina Housing Foundation proposed an Affordable Housing Policy (“Policy”) that requires new residential development with greater than 20-units to include affordable housing units equaling 10% of the combined units’ square footage. In subsequent years the Policy was amended to include a Buy-In option, change the percentage based on the number of units verses square feet, a proportionality provision, and a requirement for non-discrimination of Housing Choice vouchers among other things. The Policy is periodically reviewed to determine if there are gaps in coverage, confusing elements, for ease in understanding, and to make sure the goal of creating affordable housing opportunities is met.

Staff is now proposing three primary amendments:

- Increase the Buy-in from \$125,000 per unit to \$175,000 per unit.
- Require the inclusion of affordable units if the developer is seeking a density in the top half of the range.
- Require cooperation with the City designated compliance officer.

## **Increasing the Buy-In**

In March 2021 the Buy-in amount was increased from \$100,000 to \$125,000 to address the increasing disparities between the cost of developing affordable housing and the cost to Buy-In. \$125,000 was agreed upon as it aligned with the policies in Cities similar in size and demographics. However, in the heels of COVID the need for affordable housing has increased as have construction costs. The cost disparities continue to grow. Electing to Buy-In versus including affordable units is becoming an increasingly easier option, as indicated by the following:

- I. Based on recent proposals, the cost of an affordable unit, including land, is roughly \$330,000 per unit where the cost to construct a Market Rate housing unit is over \$500,000 per unit.

2. For affordable housing, debt financing based on Net Operating Income account for between 30% and 70% of the Total Development cost. Therefore between 30% and 70% of the financing comes from tax credits and other public sources. Based on recent proposals the Buy-in amount of \$125,000 is 38% of the cost to construct a unit and therefore does not cover the gap financing needed.
3. In looking at the rent levels of affordable units compared to market rate units over a 20-year period (using recent proposals as examples), a developer makes more than \$326,000 on the market rate unit than on an affordable unit.
4. Since 2015, 118 affordable units were included in Market Rate developments compared to 142 units that were not included in favor of paying the Buy-In fee.

Although the cost differential is roughly \$326,000 per unit, Staff believes that that high amount would not only be a disincentive to selecting the Buy-In option but could also be a disincentive to residential development generally. As of now there is no defined amount for Buy-in that will dissuade developers from wanting to develop in Edina. We do not know the threshold that will cause developers to turn away because of the fee or not wanting to include the affordable units. Therefore, Staff proposes increasing the Buy-In to \$175,000 per unit. This increase was reviewed and is supported by the Edina Housing Foundation.

### **Inclusion Requirement**

The Land Use Chapter of the Comprehensive Plan (“Plan”) provides density ranges for housing units that can be built per acre. For example, in a High-Density Residential area between 12 and 60 housing units per acre are allowed. In Greater Southdale District Residential between 50 to 100 housing units per acre are allowed. Based on recently site plan applications, developers most frequently request maximizing the number of units allowed.

The Comprehensive Plan does not indicate that the higher end of the range is deemed a “bonus” tied to affordable housing. Rather the Plan states that denser land use categories allow for the creation of affordable housing. Yet the Policy includes language that states that density bonuses can be used to make including affordable housing units within a market rate development financially feasible. The inclusion of the bonus language in the Policy reflects Staff’s intent that developments seeking the greatest density would include the affordable units within the development. An amendment to the Policy provides clarity to that intention.

Staff is proposing a two-tiered system:

- Mixed Use Developments: Developments that are 50% or greater of the maximum within the density range must include affordable units within the development. Conversely, developments that are less than 50% the maximum density allowed in a range can choose to include the units or pay the Buy-in fee.
- All Residential Developments: Developments that are 75% or greater of the maximum density within the range must include affordable units within the development. Conversely, developments

that are less than 75% the maximum density allowed can choose to include the units or pay the Buy-in fee.

### **Compliance Cooperation**

It would seem self-evident that the developers who include affordable units within their development would recognize that the City would need to confirm and verify the following:

1. Affordable units were included;
2. The rents on affordable units fall within the published affordable ranges; and
3. Tenants dwelling in affordable units are income qualified.

Nonetheless some owners have resisted cooperating with the City's compliance consultant and we have little recourse when no funding is involved. Staff believe it is important to make developers and owners aware before the development is approved that the City will confirm and verify that the included affordable units comply with the Policy.

### **Alignment with the 2040 Comprehensive Plan and Race & Equity Initiative**

#### **I. Comprehensive Plan**

The New Multi-Family Affordable Housing Policy is the City's primary mechanism for creating affordable housing. Since its passage, the City has made great strides in creating more housing opportunities. The passages below are sections of the 2040 Comprehensive Plan that support the proposed changes to the Policy.

Goal 1: Accommodate all planned residential growth in the city based on planned infrastructure investments and other community goals and assets.

1. Seek to accommodate the total new households projected to locate in the city by the year 2040.
3. Recognize that successfully reaching affordable housing goals assists the city in achieving related community goals, including:
  - f. Addressing climate change through higher density development patterns that help reduce vehicle emissions (see Energy and Environment Chapter)

Goal 2: Encourage the development and maintenance of a range of housing options affordable to residents at all income levels and life stages.

1. Encourage the production of additional affordable housing units and retention of existing affordable housing units to meet the city's housing needs and its Metropolitan Council affordable housing need allocation of 1,804 units.
4. Revisit height and density zoning requirements if needed to make the development of affordable housing financially feasible in areas guided for redevelopment.

Goal 4: Support the development of a wide range of housing options to meet the diverse needs and preferences of the existing and future Edina community.

3. Promote affordable and workforce housing that includes a range of housing prices and options, based on the principle that those who contribute to the community should have the opportunity to live here.
7. Support the development of both mixed income and 100% affordable housing throughout Edina where there is access to transit.

## Status on Achieving 2040 Affordable Housing Goal

	Forecasted Need	Approved	% of Need	Remaining
Total Units	1804	341	18.9%	1463
<30% AMI	751	22	2.9%	729
31-50% AMI	480	178	37.1%	302
51-80% AMI	573	141	24.6%	432

## 2. Race & Equity Initiative

Periodically reviewing and updating the Policy aligns with Goal 16 of the 2018 Race & Equity Initiative Final Report and Recommendations. The report calls for the City to “Review policy with a race and equity lens to include language relating housing to equity and disparities” (page 42). The recommendation goes further by requesting the consideration of removing the Buy-In option. Staff does support collecting some Buy-in funds as they make possible different types of affordable housing programs that are not financed through traditional means. However, increasing the Buy-In amount addresses the concern raised by the Race & Equity Task Force by incentivizing the inclusion of the affordable units.