1. **Opening Remarks and Meeting Overview**Dan Collison, MDC Director of East Downtown Partnership, welcomed and thanked the five panelists for committing time to share their knowledge and expertise on the topic of “Housing: What do we have, what does the market want, what do we need?” He also acknowledged the brains and experience of the audience participants and commented that there are so many partners from the City, business, residential, and development community working together to address the dynamic needs of the housing market. Lastly, he thanked Tim Briggs and PadillaCRT for hosting.

Dan then explained agenda; he’ll provide comments on the topic, introduce the panelists, and then allow them to speak to the questions developed in the small working group.
2. **Audience Introductions**

Joseph Bernard, Minneapolis CPED
Tim Briggs, PadillaCRT
John Campobasso, Kraus-Anderson
David Fields, contractor with Minneapolis CPED
Chris Fleck, North Central University
Lucy Galbraith, Metro Transit, Transit-Oriented Development
Rick Gendreau, Downtown Research Group
Daniel Gumnit, People Serving People
Charlie Hornig, The Excelsior Group
Patrick Melody, SK Capital Group
Tim Nixon, Equus Development Corporation
Mary Novak, Metro Transit, Transit-Oriented Development
Lynn Regnier, Elliot Park Neighborhood, Inc.
Patrick Sadler, policy aide to Ward 7 Council Member Lisa Goodman
Ken Searl, Downtown Minneapolis Neighborhood Association and Gold Medal Park Foundation
Marcela Sotela Odor, aide to Ward 6 Councilmember Abdi Warsame
Carletta Sweet, Downtown Minneapolis Neighborhood Association
Bert Winkel, House of Charity
Dale White, ProBid Estimating, Training and Consulting
3. **Introduction to Housing: What do we have, what does the market want, what do we need?**Collison led the discussion by first explaining the purpose of this task force and its three priorities: (1) be the champions for East Downtown; (2) define how to get development happening; and (3) create a vision.

The boundaries of the area the task force addresses includes a slice of Downtown West, Downtown East, and Elliot Park — about 100 blocks and 307 acres. Next he described the zoning districts contained within, e.g.: C3A, Community Activity Center; L1, Light Industrial; B4S-2, Downtown Service; B4N, Downtown Neighborhood; C1, Neighborhood Commercial; OR2, High Density Office Residence; OR3, Institutional Office Residence; and R6, Multiple-family.

***What housing do we have?***Collison first gave statistics from the last census taken in 2010 and when the East Downtown Council had a $50,000 Great Streets grant to study the district from a development perspective (reference the Number of Households Per Square Mile chart received from Hennepin County). At that time Elliot Park was carrying the lion’s share of density. Between 2000 and 2010, nearly a third of the entire housing inventory of East Downtown was built, although not as aggressively in other parts of downtown.

Statistics on land use taken from the Great Streets study showed that 25% was used either a commercial lot or was vacant with only 16% was for residential. Since 2010, households have increased from 3,813 to 4,343, and total residents have increased from 8,011 to 1,477.
***What does the market want?*** Collison went through statistics received from Joseph Bernard on:
* Downtown Minneapolis residential units from 2002 to 2014. It grew from 12,959 to 20,407, a 57% increase.
* Downtown residential value from 2002 to 2014. It grew from $1.1 billion to $3.1 billion, a 170% increase.
* Those between the ages of 25 to 44 who moved in from out of state in 2014. 17.6% moved to the metro area, 19.3% moved to Minneapolis, and 32.6% moved to downtown Minneapolis. It’s a trend; millennials are excited about density, willing to pay more for housing, and getting rid of their car.
* Median home sales price from 2002 to 2014. In comparison to the metro and Minneapolis, downtown Minneapolis has skyrocketed with almost a $125,000 price higher than elsewhere in the region.

Collison then recommended to the audience Dougherty & Company’s *Twin Cities Multifamily Market* study for 2014-2015 (<https://clients.doughertymarkets.com/MarketViewpointReport.pdf>), a very helpful market analysis for developers. The study, authored and research by Thomas O’Neil of Dougherty Mortgage, revealed that multifamily housing, as a percentage of all new housing in the Twin Cities, has increased dramatically and now stands at 48%. That’s a great trend for downtown where you want density and high-quality experiences. Collison believes that the LRT can be attributable to much of this growth.

Dougherty’s study also described multifamily housing types, e.g.: high-rise construction (8+ stories above ground); mid-rise construction (4 to 7 stories); and low-rise construction (less than 4 stories). Collison then read the study’s development pattern for downtown Minneapolis and displayed a map showing where multifamily development is occurring.

In comparison to the North Loop, Collison surmised, the East Downtown district is still largely untested and underdeveloped when it comes to housing opportunities. Yet there are three important housing projects in the pipeline:

* Jim Stanton's proposed condo high-rise at South 8th Street and Portland Avenue in Elliot Park;
* Sherman Associates’ proposed luxury apartment building at South 2nd Street and 10th Avenue South; and mixed-use development at Chicago and Washington Avenues in Downtown East; and
* Ryan Companies’ mixed-use development and urban park in Downtown East.

***What do we need?*** Collison pointed out that the array of housing, based upon income, ranges from:

* Subsidized housing for the lowest income earners (zero to 30% of area median income) who are typically homeless or at risk homeless, unemployed, disabled, etc.
* Subsidized housing for the low to moderate ($20,000 to $50,000) income workforce
* New workforce income ($70,000 to $80,000) earners
* Nonsubsidized market rate rental; and
* Nonsubsidized market rate condominiums.

Collison then conveyed the task force’s aspirations for housing and posed two key driving questions to get a sense of how to fulfill its aspirations:

* If the 2025 Plan goal is to double the downtown residential population to 70,000, what are appropriate goals for the East Downtown District?
* How do we catalyze a greater sense of urgency for increased housing development volume and diversity in East Downtown?
1. **Introduction of and Questions Posed to Panelists**Collinson introduced the following panelists by providing a brief biography on each:

George Sherman, President/Owner, Sherman Associates
Elizabeth Flannery, President, Community Housing Development Corporation
Cathy Capone Bennett, Housing Specialist, Urban Land Institute, MN
Jay Demma, Senior Planner, Perkins+Will
Carl Runck, Director of Development, Ryan Companies

Collison then asked the panelists to respond in turn to the following questions developed in the small working group:

*What are you most enthusiastic about and what are you most concerned about regarding the housing inventory in Downtown in general and East Downtown in specific?

What are the drivers and constraints of housing desirability?*
*How are the demographics of all of Minneapolis mirroring housing in downtown?

What are the most attractive parcels for housing development in East Downtown?

What are the financial toolkits for developing housing?

What are the most attractive parcels for housing development in East Downtown?

Compare and contrast positives and negatives of rental vs. condo.*
**Sherman**: East Downtown is a little bit of a sleeper compared to what is happening in the North Loop but surprisingly its housing crisis and rental rates have exceeded those rates achieved in the North Loop and that’s been driven by the amenities in ED. It has the most spectacular park of the riverfront. When he was in his 20s, he negotiated a purchase price with Burlington Northern for 45 acres from the PadillaCRT parcel to the Plymouth Avenue Bridge for $15 million. Since he only had $100,000, he went to the City for assistance, but at least half of the Council wondered who would want to live down there. What happened over the last 25 years have been the consistent efforts from many parties to improve the riverfront and its infrastructure, e.g., West River Parkway, Gold Medal Park. We also have land in ED; most of the North Loop was parking lots or historic buildings with relatively small parcels that could be fit together. We also have a transportation corridor on this end of town; it’s easier to get into this part of town than it is to get into the North Loop. We have a great and improving light rail system and the connectivity to downtown so far without the congestion. As parcels get developed, his concern is that we will start having that kind of congestion and more challenging traffic pattern in the next 5 to 10 years. What makes it desirable is the consistent work of people across the board, whether developers or the City, to bring on some really great amenities, i.e., Gold Medal Park, the riverfront, and including the Vikings stadium and the connections going on there as it is clearly the driving factor. We’re going to bring a grocery store down here next year and that will be a great plus for this end of downtown and we have some really quality housing already established that will promote other housing. In 5 years the east end will probably have the highest growth percentage of development and achieve some of the highest rental or sales prices of any area of the Twin Cities. That obviously brings up some substantial issues Dan just identified because in 10 years the median income in the Twin Cities has gone up by zero. We are faced with the same median income for everybody living in Minneapolis as it was in 2007. The people that are building and enjoying the housing right now are not the median income. The people in this room are probably in the top 5 or 10%. That’s the market that’s been participating in the downtown housing market for the most part. The tools that have made that work have been relatively low, low, historically low interest rates and the ability of the 10% to have some income growth. The challenge is the gap between construction costs and that zero growth in median income. The construction costs for an average multifamily housing building you see going on in the North Loop or this area of town is $250,000-300,000 per unit. The average median income in the Twin Cities is
$76,000 for a family and $40,00 for an individual so they can afford somewhere about $150,000. So if it costs $250,000-300,000 to build an apartment building, we aren’t even making a close dent in what an average median income can afford to rent and interest rates will go up. They’ve been at an historic low for 5-6 years but once rates go up to 5-6%, the threshold, whether it be multifamily for the 10% or the median income, is going to grow and become even more difficult. I’m very optimistic about the next 2 years for ED. We’re going to see phenomenal development happen. It’s going to be an incredible challenge to address housing for the workforce and median income and when the interest rates go up in 2017 you’ll see a substantial slow down across all segments in the housing market.

**Flannery**: I’ve been working in the field of affordable housing development for the last 25 years and what we at CHDC have been doing is to work on making a dent in housing opportunities for people at lower and moderate incomes. Our mission is to work with communities and neighborhoods to locate housing where it makes the most sense. What she is most excited about in the Downtown East community is that the founder of CHDC, Dick Brustad, is also the founding partner of Brighton Development who took off his for profit hat in 1991 and founded the nonprofit to focus on workforce and affordable opportunities in the metro area. Prior to that Dick was head of the Minneapolis Housing and Redevelopment Agency (MHRA) that predates the Minneapolis Community Development Agency (MDCA) and Community Planning and Economic Development (CPED) and was in charge of the Metrodome development. So when we were looking at Downtown East and the opportunities with the Vikings stadium and the development surrounding that Dick could not have been more excited. He talks about this being the biggest thing that has happened in Minneapolis in his entire career, which goes back to the 1960s, and probably the most significant development in downtown Minneapolis in at least four decades. We have been working really hard to identify locations and have a workforce affordable housing component as part of this whole redevelopment. In fact, Tony Barranco and Rick Collins of Ryan Companies approached Dick about 3 years ago at the urging of Wells Fargo to determine where its people were going to live. This development is all great but we’re going to have 6,000 employees and they want to live right here. I can’t think of a better transit-oriented development site in Minneapolis than in Downtown East; you’ve got the LRT, Green and Blue Lines, and you’re just a block away from the bus station that has every bus line in town. So that, plus the employee base of HCMC, University of Minnesota, Wells Fargo, all being major downtown employers, it is a critical unmet need at this time. We’re continuing to work with Dan and Ryan Companies to locate sites and produce workforce housing. The challenge, as George said, it’s very difficult to finance and was the biggest obstacle faced when trying to incorporate that component into the Star Tribune land and Ryan development. Even in this favorable interest rate market, it does not address those income limits. The public subsidy resources have steadily declined over the years. The resources that primarily came from U.S. Department of Housing and Urban Development (HUD) have essentially dried up. It began in the 1980s and now they are left with the Low Income Housing Tax Credit (LIHTC). The good news is that Minnesota and Minneapolis do much better than most areas of the country. The resources that Minneapolis, Hennepin County and Minnesota try to commit to this are far greater than other areas in the country. We need to think more strategically about what kinds of housing options there are and Downtown East has significant potential to develop high-quality, livable, really critical workforce units.

**Bennett**: I’m going to echo what both George and Elizabeth talked about as far as the opportunities and challenges. The public investment that has occurred in the Downtown East area really is a great opportunity for Minneapolis not only as a downtown area but also as a region and looking at attracting the talent we’re going to need to serve the job growth in this area. Those types of investments are really important and Dan your stats are already showing that’s occurring by people coming in from out of the state and want to live downtown. And as the transportation system continues to get built out and the future support for that all connected system is going to increase the desirability of our region. We’re kind of just a little bit sleepy when you look at all the other metropolitan areas and I think that the opportunity in downtown and Downtown East with all the investment is going to propel us to a new level for people not only from other regions but from across the world. It’s going to help us be the big metropolitan area we know we are but everybody else doesn’t necessarily know we are. With that comes challenges and as everybody mentioned is the high elevation of land cost, the cost of construction, and how do you build and finance the diversity of housing that is needed for those jobs, and to house the people that are going to be coming in for those jobs. I think Downtown East and just all of the other investment and the talent that we have in this region, we really have to figure out how to crack the nut on financing the mixed-income housing. I think our region is so deeply good at doing the lower-income housing, not that the needs don’t outweigh the resources that we have, but we really know how to do that and we consistently have to do it in this area. But it’s that middle-income housing and integrating it transparently within buildings and figuring out a new method to fund and finance. We’ve been part of a lot of discussions on ways to do that without always looking back to the same public resources. There’s got to be some way a fund can be created to provide some patient capital to help finance in this critical time some of those units within everything that we do. In the North Loop it is all market rate. It’s great and really propelled the area but it left a lot of people out and probably will for a long time. So how can we do it differently in Downtown East and I think that’s the challenge to everyone. Just a couple of things from ULI’s national perspective that I think are going well for Downtown East and the downtown area. We do a lot of national surveys on what people value and what people want in housing. All of the things we’ve heard about walkability, mix of uses and amenities are definitely what people want, but 92% want neighborhood safety and that is something we need to be conscience and careful about as a place starts to develop rapidly. Another 80% want the quality of schools. If you’re going to capture that younger generation, how are you going to keep them here as they start to grow families? 15% of young residents in Minneapolis leave every year probably to the first string suburbs where they access to quality schools but still close to what they really value as well. Is there a way that can be more fully integrated into downtown?

**Demma**: Based upon the research I’ve been doing that’s part of the study Dan mentioned, the biggest potential for East Downtown is to capture the zeitgeist of urban living. George mentioned a lot of the investments made in the infrastructure to create amenities in and around downtown. A lot of that is in place but there’s still a lot more that can be done. Enough is in place to reap the benefits of the seeds that have been sown. The zeitgeist is this whole notion that urban living with those amenities in place is really truly desirable, not just here in the Twin Cities and I use that term because it’s global in many ways. Just looking at other cities in the United States they all have been working toward revitalizing their downtowns now for several decades. You look at downtown after downtown after downtown and the studies come back all of the growth, energy, dynamism and development is happening in those areas. When you start to think in terms of sustainability and resilience of our communities and regions, downtown environments percolate even higher when you add in that kind of perspective that these now are areas with accessibility issues, folks of all incomes can access living wage jobs. There’s the ability to economically reinvent yourself because you have more people living in these areas where there’s more interaction that can happen at a denser level. It’s the ability to capture zeitgeist that puts it out there. Because I generally have agreed with pretty much everything George, Elizabeth and Cathy have said, I don’t want to belabor the points they’ve made already eloquently, so I’ll shift to some of the concerns or risks for East Downtown. A lot of it has to do with the diversity of housing. When you look at the American model of urban development post war, we built the highway network and that for a period of decades disinvested our urban cores and now that reinvestment is coming back because we’re putting in transit and other amenities. The process is unlike some of the other places in the world during this period of the 20th century; the cores of those areas always remained the most desirable, most expensive and least affordable because they didn’t build the highway or transportation network in the same scale as the U.S. But now that the U.S. is changing course and there’s all this energy focusing back into the core, we’re having to cope with are we going to price out many people from being able to live there. I see that as a major risk. I think the balance of what we talk about today could perhaps be about approaches and strategies to addressing that. Some of it could obviously happen on a regulatory level. If the market is strong enough in other places they have instituted things like inclusionary housing as a way to help leverage what’s happening in the market. Market rate side of things to help support more nonmarket housing. There are other direct subsidy methods that perhaps could be implemented as well. The political will is not always there, but if there’s the understanding that living downtown has such value then there’s a shared goal to try to create more diversity and figure out how to solve some of these problems.

**Runck**: I’ll speak from the lens of conventionally financed market rate projects because that’s what I know. I have no expertise in affordable housing but I totally agree that there’s a need for it and look to Elizabeth and George as the experts on this panel. Three years ago when I was at Alatus we had just kicked off 7 West Apartments on the West Bank where Grandma’s used to be. It was privately financed and higher rents because it was for law school and MBA students primarily. We also owned a downtown parking ramp that has a LRT station on top of it and I was trying to find a way to get that into production and this was long before the Vikings stadium was announced and there was a wasteland of parking stalls. I had several investors tour the site and they said you’re not going to finance a housing project in that area as it was then. Fast forward, the Vikings stadium was announced, the Ryan Wells Fargo project was announced, and then the park option, which I hope is implemented all the way. What is exciting to me is after knowing EDC, Dan and everyone for 3 years, the neighborhood is on an upswing big time south of Washington Avenue. North Washington Avenue has been on the upswing for quite some time and the history as George explained is the desire to be by the river. I think the desire on the market rate side as you continue going south is with the park. I think the commons has the opportunity to be our Millennium Park. I was talking to an investor from Chicago this week who gets it and said if we can pull this off and implement it as Hargreaves envisions and program it, make it safe and a tourist attraction, this could be our Millennium Park. Investors, residents and everyone want that so on the market rate side the most important thing in my mind that needs to be executed, selfishly for Ryan and Excelsior as well, is the commons and to find a way to fund and implement it 100% and not have just a piece of grass that is unsafe and undesirable. On the affordable side, 10 years ago I lived in downtown Denver while attending grad school and I saw a lot of examples in the Lower Downtown Historic District (LoDo), the most desirable area there, with affordable housing mixed in on the first few floors which are harder to rent and the upper floors are market rate whether condominiums or rentals. Why can’t we do more of that here? You don’t even notice it. The market rates are highly desirable and are the first to go in the building and there’s Tax Increment Financing (TIF) usually associated with it to help justify the lower rents you’ll achieve in the lower units. Not being an affordable guy, just observing it in other markets like downtown Denver, I think there’s an opportunity here on this side of town to start implementing that that kind of solution.

Collison kicked off the Q&A by asking what are the challenges of getting affordable into market rate in combined development projects?

**Sherman**: We have a 1,000-unit project developed on about 5 city blocks that were previously parking lots in Lowertown, St. Paul that has every type of housing in it, i.e., public, Habitat for Humanity, affordable and market rate rental, and for sale. It is incredibly complex, the financing is complex, and the management of it is complex. It isn’t just build it and they will come. It’s build it and you’ll have to manage that complexity for 30+ years. The biggest challenge is putting together the financial tools to allow someone in the complex to pay $300 a month, and someone else to pay $1,500 a month. That same rental or price range creates a complexity in management. The person paying $1,500 a month may or may not have the same view of the world as someone paying $300 a month. They may have different family sizes, jobs, and lifestyles and when you’re managing diversity of that nature, you have to start managing complex human interactions. The financing is incredibly complex; we had to get special legislation at the state level because many of the things we did were not allowed by existing law and we have to continually dedicate ongoing management resources. We keep it very full but it is not something you build and walk away from or sell to an investor out in New York at a cap rate; it is something you build and are dedicated to for a very long time.

**Flannery**: There are successful examples in the Twin Cities of mixed-income and mixed-use projects. I worked with George and Ryan Companies on the Midtown Global Exchange and that’s a great example with Allina’s offices there and we have 220-units of affordable and 89 condos. George is still managing it to this day. It’s a beautiful project but all the stars have to align. On a successful mixed-use project, you have to get the land at a reasonable cost and critical financing issues need to be resolved; you have to put together 5-10 financing resources that don’t really work well together and is an ongoing management issue. The resources are so scarce to subsidize those lower rent units, it helps if it’s an historic building and can leverage historic tax credit, and it helps if you can achieve market rate on the other components. In the North Loop, CHDC developed the Creamette Lofts that was part historic and part new construction. That is a mixed-income model and it has 50% market rate and 50% affordable and it is seamless. We’ve managed it for 12 years now and it was one of the first multifamily developments when they started and it fits in great. We also did the historic preservation of Garr Scott Lofts which is also a mixed-income, affordable to market rate project. If you manage it right and it’s your commitment, it works.

**Bennett**: How can we make things easier and better? These are really, really complex projects and not every developer has the mindset, energy and tenacity to be able to pull all these things together. What we’re trying to work through is how do we create a financing tool that isn’t as complex. In this age of low interest rates, but they’re going to increase, how do we capitalize on that? And in this age of corporations doing better, is there a way to capitalize on private socially-conscience capital to help build a fund for workforce housing? Once you get into the deep subsidy public funding, that really makes it very, very complex so is there a way to try and create a fund that isn’t as complex and maybe isn’t as regulatory-based as well.

**Flannery**: Yeah, and that’s exactly what people are trying to do all over the country right now because it’s so important. We do have resources for the very low income in the form of tax credits, resources to create housing that is affordable for people that earn up to 60% of the area median income and what is being financed today is the high-end market rate. Well in the middle there’s a whole strata of people who earn 65% of area median income and can’t qualify for a tax relief unit. So there’s a huge demographic in Minneapolis that earns between 60-80% of area median income and there is absolutely no financing mechanism available which is one thing they’re working on and I think there is an opportunity in today’s interest rate environment to do something like that.

Dan than asked that they talk about the taxonomy of toolkits to do multifamily.

**Sherman**: In today’s environment, some of the deep federal programs have all disappeared and we’re down to one program, LIHTC. Minnesota receives enough tax credits to do around 1,000 units a year in the whole state. Just this week, Minneapolis announced that they were reducing their share of that because of the population demographics and will get enough credits to probably do about 150 units of the 90% credit per year. That doesn’t come close to making up the amount of low-income housing that gets destroyed each year; we lose 150 units of affordable housing every year across Minneapolis. So the total tools Minneapolis has at the federal level does not replace the amount that comes down each year. On the state level, we are one of the most progressive from a property tax view and politically too and there’s a strong commitment to address affordability and workforce housing issues. Last year Minnesota dedicated about $20 million, the first time it had done so in 5 years. On average we dedicate about $20-30 million a year of taxpayer dollars for affordable housing at the state level. The gap between workforce housing, what a Wells Fargo employee can pay, and the cost to build is about $120,000. Take $20 million from the state and divide that by $100,000 and you get about 200 units. In one year we had a huge state allocation of $100 million so that was 1,000 units in one shot. On the local level we have TIF, using property taxes that projects generate to help subsidize units. Typically, that has become more and more controversial; some cities don’t want to do it at all and we currently have a City Council that has a mixed opinion about TIF. One issue is that we have reached almost 10% of our property taxes going towards it and there’s been a desire to get that down to 6-7%. Projects do get done but it has been less than what it was 10 years ago.

**Flannery**: On a typical affordable housing, if you use 9% credits you have less sources because that’s twice the equity. There’s a 4% tax credit that is not limited; the 9% is capped in every state based on population so it’s very competitive and a limited resource. The 4% credits are unlimited and go with housing revenue bonds or a bond issue but that leaves a much greater gap. What Minnesota has been doing is between the 4% tax credit equity and a first mortgage you can maybe cover 60% of the total development cost. But you have a huge financing gap and so the tools that have been used by the state, county and local municipalities are deferred loans. Essentially, they’re a grant but because of the tax credit program they can’t come into the project as a grant but are structured as a 0 or 1% interest deferred loan for a 30-year term so there is an extended use period and why most developers don’t do this type of housing because they’re locked in for a minimum of 30 years and all the program requirements. At the state level there are pools of resources, e.g., preservation. Minneapolis has the Affordable Housing Trust Fund (AHTF) that fluctuates from year to year; Hennepin County has the Affordable Housing Incentive Fund (AHIF); and the Metropolitan Council has Livable Communities Demonstration Account (LCDA), and they all have specific criteria and targets and to match it is like a puzzle. So we have resources but there’s not nearly enough and we need all of them to make it work.

Dan asked what are all those resources saying about East Downtown.

**Runck**: I don’t have that expertise in public subsidies, but another more controversial source to deliver units less than $250,000 to $300,000 a piece, is to build nonunion labor into the construction costs. If you look at a building with some nonunion trades you can save a dramatic amount of money on that cost per unit. In Minneapolis, and Ryan Companies, it’s all union labor but if you’re looking to reduce construction costs use nonunion labor. In the suburbs where it may be easier to hire nonunion trades you can lower the cost per unit that then lowers the rent required to kick off the project. That is a more controversial means within Minneapolis because it’s a pro union town but it’s another way of looking at the equation.

Responding to Dan’s question about how he structures a market rate project and what drives it, Runck noted that LPM Apartment is the one outliner in the downtown core. It has not done well and Magellan has made mistakes on the product design. The bedrooms have a curbed glass wall and you can’t fit a full, queen or king size bed. They went cheap on the finishes in the kitchens versus the competition and their location is not as good and if people are going to spend $2.50 psf they rather be by the river. If you look at the rest of the projects closer to the river in the North Loop and this side, they have done well. 222 Hennepin was 4 months ahead of pro forma and I think that is the thread for developers who’ve done market rate closer to the river. The farther away you get from the river, the less the desire is from outside capital groups. I’ve toured a lot of capital groups and they want to focus on the new gold coast of Minneapolis which is river where you can support new construction cost

**Bennett**: I wonder, since we have some great developers in the room, ULI has released a study about micro units (i.e., 300 sf) that in other markets they are done well with nice finishes and are very attractive to the younger generation because they do a lot of sharing but don’t want to share their space. They only want to be there a small portion of the day and it is providing an affordable way for them to live in a very desirable area. I think we tiptoed into that in this market but haven’t fleshed out if there’s even a market for it. I’m curious because that could be an option and opportunity in the downtown area.

**Runck**: We’re not Seattle which charges $3+ psf, we’re not San Francisco which is about $5 psf, we’re $2-2.50 at the top end and I don’t think we’re there yet. There’s a lot of income in the city of support more products that are 850 sf or 600 sf versus going way down to micro units. It would be pioneering and I think someone should try doing it but I don’t want to be the pioneer.

**Sherman**: We’re doing some smaller, I call them large studios that approach 550 sf and they seem to be doing very well but we’ve created a private bedroom and they seem to be one of our hottest units. I don’t know that Minneapolis is prepared for the micro units. Even though our rents are still high but not enough to drive people down to 300 sf unit. I’m worried too about at the affordable level all the funders are really focused on family housing and you’re not going to get them to finance a 350 sf micro unit (unless it’s for formerly homeless or disabled) for workforce housing. One of the biggest things we do is convert efficiency units in historic rooming house hotels from 300 sf to 500 sf. I’m somewhat concerned about whether that is a product of obsolescence. The country was building rooming houses in the 1880s to 1920s and over time they became things that people didn’t want. Maybe in some cities they work, but in other cities it’s not what the market wants.

**Runck**: There are all sorts of creativity in design where you have units that can be easily combined so that you can then double into something that is marketable.

Responding to Gumnit’s request for advice on how People Serving People can avoid potential issues moving forward with all of the new wealth that’s coming to the neighborhood, Sherman commented that when we have these mini villages that we create, we focus a lot on communications in meetings like this. People want to get to know another and want to find out that they share more their common factors than the differences they see by just walking by so I think you need to continue to invest in the community relations. On the survey we heard people’s number one concern. After Ferguson, people have to admit race is an issue. In Minnesota and Minneapolis that’s an issue we pretend it’s not an issue, but it is when people start talking about integration of housing. The other issue is safety and is a concern of everybody. I think communication is something you can do and safety is something you can do and having good models of product. The issue of race is silent but very loud issue of integrated housing is one that we are going to simply have to prove works. Only by those of us taking examples and making it work and viable are we going to be able to help address the issue. You’re going to have to be the safest place around. We’re building right next to you and around you and we will likewise have that same standard. One of the best things we’ve seen in Downtown East is the DID. When you see people out on the street with their bright yellow blazers picking up around you and asking how your day is going, it completely turns the topic about safety, race and habitability. As we have that conversation, I would like the DID becoming viable throughout and ahead of this whole development and set a standard for investing in our community.

**Flannery**: I agree with what George says. I think the most important thing is really trying purposely to create a neighborhood and to get to know your neighbors. You are an asset to the community; you’re providing this incredible service and if it weren’t there we’d have more people on the streets and much larger issues. With all your new neighbors coming in I see volunteer opportunities and all sorts of ways of getting to know who lives in your neighborhood because then people do start looking out for each other and taking pride in their community. People understand their living downtown and not in a gated community; they like that because there’s diversity and activity.

Collison: Because I’m joint staff with the MDC and the EDC, the DID is working right now on an expansion plan. Wells Fargo has said it wants that kind of service around the park and it may push all the way to the edge of Valspar. We have to sort out corporate landowners and residential and who buys in and who gets what. Then the other piece is placemaking is the concept that can bring people together across these platforms and why I’m pleased to be on the implementation and technical advisory team because it’s connected to the new Greening Minneapolis. We need to do programming that really includes everybody and is accessible and how we fund that and who staffs that will be an interesting question.

Fields: The key to expanding DID in East Downtown is assessing residential which they currently do not do and that’s the controversial part. How do you do that? Do you assess the owner or the individual owner particularly in condos? If you can bring the DID, and I know it made a big difference in Elliot Park, it will help address some of the issues raised.

Responding to Odor’s questions about where the growth of the population of the city is going and how that will impact what we’ll be funding, Sherman said that one of the real reasons Minneapolis is desirable on top of having a really healthy economy and a great infrastructure system is that we’ve been producing jobs. We’re not the biggest job growth city compared to Denver and Houston, but we’ve had good steady jobs and our long-term ability to be this healthy is going to be based upon producing jobs for everybody. We have a real disjointed job future for those in the minority population. We have the highest differential between graduation rates of African Americans and Caucasian of any city in the country and that creates a huge discrepancy in employment ability. If you’re graduating 35% African Americans and 80% Caucasians the jobs will pick the winners and losers. We have an 8% graduation rate for African Americans in our 4-year colleges, the Caucasian rate is about 65% and that’s going to impact whether they gets a high-quality paying job and the option to rent or buy a house that isn’t affordable. Whether it’s 200 or 1,000 units a year, we’re not going to produce enough housing to matter until we change the ability of people to get good paying jobs and the biggest factor in that is education. We have such a phenomenal gap in education. We’re going to put up the highest price housing right next door to the site and I’m very happy about it. But when we do affordable housing, the constant that I know is that we can’t produce enough of it because there’s not enough money and not enough tools. If there’s a chance to do something about the housing gap, it’s going to have to be on the education and job side where we have a chance to move the needle a little bit more than the kind of statistics I’ve just quoted.

1. **Announcement**Dan announced that the EDC business forum on Thursday, February 19th at the Aloft Hotel will focus on this topic of human flourishing as it relates to economic vitality. Panelists include Eric Luna Garcia, the policy aide on Economic Development and Opportunity, will be speaking for the Mayor’s Office; Alan Arthur of Aeon will speak about housing; Pam Costain of Achieve Minneapolis will speak about education; and Alex Tittle of Minnesota Sports Facility Authority will speak about equity.
2. **Adjournment**The meeting adjourned at 10:30 a.m.