MIXED-INCOME AT 2700 UNIVERSITY

TRANSIT ORIENTED DEVELOPMENT GUIDE

EQUITY IN ACTION

The mixed-income, mixed-use project at 2700 University Avenue is a model for communities in the region that seek to incorporate affordable housing units into an otherwise market-rate development. Located at the corner of University and Emerald Avenues in Saint Paul, the project houses 198 market rate units and 50 units reserved for households that earn 50 percent or less of the area's median income Those units will be affordable for at least 30 years. Residents of 2700 University have equal access to all building amenities and all common spaces, regardless of how much they pay in rent. All units have similar layouts and finishes.

Saint Paul, University Avenue. Looking southeast toward 2700 University across the street from the METRO Green Line Westgate Station. Source: Metropolitan Council

FROM RECESSION TO OPPORTUNITY

The site was formerly occupied by the Midway Office Building, which was built in 1922 and no longer viable for continued office use. The City of Saint Paul envisioned that the vacant and underutilized land along University Avenue, including the Midway Office site, could be developed into a higher-density mix of uses with an abundance of housing choices. The site was vacated and cleared in anticipation of new development. The Great Recession, however, negatively impacted the City's ability to generate and sustain interest in the site prior to the line's opening in 2014.

After a previous concept from a local developer failed to move forward, Indianapolis-based Flaherty and Collins Properties entered the Twin Cities market with a mixed-income, mixed-use proposal. The developer had a strong portfolio of market rate and affordable developments built in their home market, experience that was appealing to the City and prospective financial partners. This experience and partnership proved successful, with the project grand opening occurring in late 2016.

PATIENT CAPITAL PAYS OFF

To realize the policy goal of a mixed-income project with dedicated affordable units integrated into the building, the project required a complicated financing structure. This meant utilizing new financing tools, relying on trusted relationships with funders, and taking a risk on a developer new to the region.

FAST FACTS

PROJECT FACTS

Developer:
Flaherty and Collins Properties
Total Development Cost: $54M
Total Public Investment:
Tax Increment: $8.3 million
HOME: $1,000,000
LCDA TOD: $1,944,744
Tax Credit Equity: $4.6 million
Total: $15,844,744
Dwelling Units: 248
Percent Affordable Units:
20% at 50% of area median income (AMI) or below

TOD METRICS

Stories: 6
FAR: 4.4
Dwelling Units/Acre: 137
Residential Parking Ratio:
0.8 stalls per unit

STATION AREA

Transit: METRO Green Line
Station: Westgate
Station Area: High-density, mixed use development.

Metropolitan Council Livable Communities Grants

Applicant: City of St. Paul
Year: 2012
Grant amount: $1,944,744
Funded elements:
Acquisition, land surveys, and public improvements.

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Complexity breeds innovation

The project's affordable units are financed through different sources than the market-rate units but are scattered throughout the building. To realize this outcome, the developer needed to create two separate but parallel condominium ownership documents, financing packages, and legal descriptions.

Because there were different types of financing for two types of products (affordable and market-rate), underwriting the project was complex and time-consuming. To keep the project solvent while permanent financing was completed, the project utilized a new mezzanine debt financing tool available through the Twin Cities' Local Initiatives Support Corporation (LISC). The mezzanine debt gave the project enough stability for the permanent financing to come through, facilitated by a partnership between LISC and BMO Harris Bank. This made it one of the more complex housing projects to be undertaken in the region at the time, and that complexity created some increased costs that will likely be resolved as the tool is used more frequently.

LESSONS LEARNED

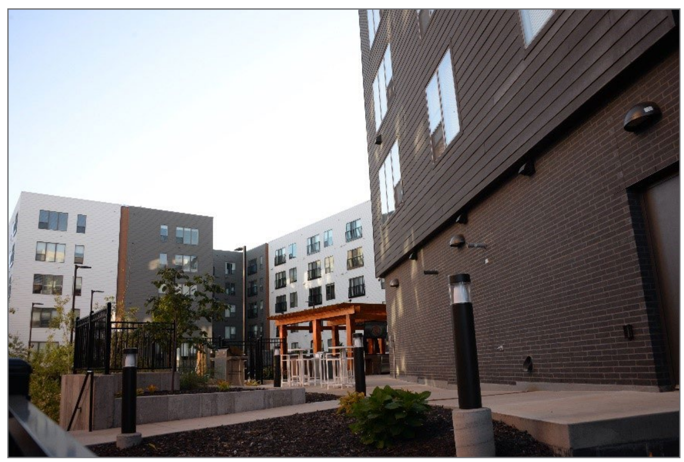
Developing this type of mixed-income housing with a retail component was a learning experience for the project partners. The project is not only transit oriented, mixed-use, and mixed income, it is also a high-amenity project that exceeds the City's sustainability ordinance guidelines. The City leveraged existing trusted relationships with the US Department of Housing and Urban Development, LISC Twin Cities, the Metropolitan Council, and the National Equity Fund (NEF) to craft a financing package that met these goals. Based on prior experience in other markets, the developer had the capacity to undertake a project that has comparatively lower profit projections than more traditionally-structured mixed-income financing packages have. The result is a project that achieved a lower per-unit cost than many 100% affordable TOD projects, according to a 2015 City-sponsored housing costs analysis.

HOW DOES THIS PROJECT SUPPORT TOD AND LIVABLE COMMUNITIES?

Connect: The project provides a high level of on-site amenities for all residents, many of which are not ordinarily part of affordable housing projects. These include a fitness center, yoga studio, cycle studio, a year-round interior landscaped courtyard with a pool, areas for outdoor entertaining, bicycle storage/repair space, and a dog relief area.

Intensify: The new multi-story, mixed-use, primarily residential development with underground parking has a residential parking ratio of 0.8 space per unit, lower than many developers working in the area have sought.

Demonstrate: The project demonstrates three THRIVE principles: Livability, equity and sustainability. Livability and equity are supported by providing housing units for a mix of incomes – the inclusionary nature of which offers an example of a best practice in building management – that's also transit-adjacent. The LEED Silver-Certified building demonstrates sustainability principles. The project also shows how effective public-private partnerships can leverage a financing package that integrates affordable units and market-rate units in the same building. In addition, the project shows how earlier experiences in developing mixed-income, mixed-use projects can drive innovation and lead to success.



2700 University offers outdoor living spaces for all residents to enjoy, including four-legged ones. Source: Metropolitan Council

DIGGING DEEPER INTO THE DETAILS

As a real estate deal, this project unites private, non-profit, and public finances into a structure that offers a model for creating a mixed-income project. One benefit to the project had been that the land had been held and cleared by the Saint Paul HRA. One construction contract was developed with two different schedule of values, two cost accounts, and two separate capital stacks, as detailed below.

The affordable portion of the deal has a total development cost of approximately $15,500,000. The sources included up to a $1M HOME loan with an interest rate of 1% deferred for 30 years; a TIF pay-go note of $8.3M with an estimated interest rate of 5%; a maximum of $9M of affordable housing revenue bonds leveraging 4% low income housing tax credit equity of $4.75M. The bonds are split between A Series placed with BMO Harris bank and B series publicly sold. There is also a general partner loan of just over $1M.

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The market rate portion of the deal has a total development cost of approximately $38,500,000. The sources included the $1,944,744 LCDA TOD grant; a $28M five-year construction loan from BMO Harris Bank; a mezzanine loan of $5M of which 60% was financed by LISC and 40% financed by BMO Harris Bank; cash equity of $1.5M came from the developer and the developer fee was deferred.

Finally, the ownership structure of the building has the market-rate units legally described as a common-interest-community condominium. Within the one structure there are two separate legal descriptions for the market rate and affordable units. The developer, Flaherty and Collins, manages the entire building and the leased retail space.

Construction underway on 2700 University Ave. Source: Metropolitan Council

LEARN MORE

Project-related Websites

- www.2700university.com
- Flaherty and Collins, developer
- LISC Twin Cities
- Twin Cities Mixed-income Housing Case Studies by MZ Strategies, LLC

Staff Contact

Marie Franchett, Principal Project Manager
City of St. Paul
651-266-6565

FEEDBACK

Did you find this information useful? Do you have questions or suggestions for improvement?
Contact us at TODGuide@metc.state.mn.us

Metropolitan Council
390 Robert Street North
Saint Paul, MN 55101

metrocouncil.org

Main: 651.602.1000
TTY: 651.291.0904
Public Information: 651.602.1500

TODGuide@metc.state.mn.us

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