

Missing Middle Housing Pilot Program Guidelines



Program Goal

The goal of the Missing Middle Housing Pilot Program is to develop three to 20 units of ownership or rental housing on vacant land throughout the City of Minneapolis, with preference for projects that are cost-effective, meet local affordable housing needs, provide equitable work opportunities and/or have design features in alignment with City priorities.

Eligible Applicant

- Applicants must demonstrate a development team that includes a developer or general contractor with experience performing a comparable scale of real estate development within the past two years
- Applicants cannot own vacant and boarded buildings without a restoration agreement, Tier 3 rental properties without a reasonable explanation and management plan for the property's Tier 3 status, or have uncured defaults with City of Minneapolis redevelopment or financing projects

Eligible Projects

Projects of three to 20 units for rental or ownership housing on a parcel or contiguous parcels within the City of Minneapolis.

Eligible Properties

Any land located in the City of Minneapolis is eligible. Projects resulting in any net loss of units from the immediately prior building on a site are not eligible.

Affordability Requirements

City financing is only eligible for the affordable housing units. Affordable housing units must be reasonably comparable (features, quality, and size) to market rate units. All projects must meet the following minimum criteria:

- If rental: a minimum of 20% of the units must be affordable to households at or below 50% of the area median income (AMI). Affordability must be maintained for a minimum of 30 years.
- If ownership: a minimum of 10% of the units must be affordable to households at or below 80% AMI. In Northeast, South, Downtown, and Southwest Minneapolis, projects must partner with a long term affordable housing provider or document how they plan to ensure affordability for a minimum 30-year period.

Available Financing

Ownership Projects: Financing for ownership projects will be secured with a declaration of covenants or a 0% interest mortgage and note to ensure affordability for 30 years.

- Project Gap: a forgivable loan of the difference between the total development cost of a project and its fair market value upon completion.
- Affordability Gap: a deferred 30-year loan for the difference between what a household at a targeted income level can pay towards debt service through mortgage payments and the fair market value of the property.
- At least \$10,000 of City financing must be used for affordability gap.
- Affordability requirements for long term affordable projects will be evidenced with a declaration of covenants.

Rental Projects: Financing for rental projects will be structured as a loan secured with a note and mortgage and deferred at 0% interest for 30 years or the term of primary financing if longer than 30 years and affordability requirements will be evidenced with a declaration of covenants.

- **Development Gap:** the difference between the total development cost of a project and the amount of debt and equity that the project can support.

Total Financing: Total financing for ownership and rental projects is up to \$70,000 per affordable unit. Projects that demonstrate a compelling basis for deeper subsidy will be eligible for up to \$95,000 per affordable unit. Some examples of compelling basis include restricting units to AMI levels below program minimums, providing larger affordable units of 3+ bedrooms, and/or providing a longer term of affordability than program minimums.

Layering: Projects financed through the Missing Middle Pilot cannot layer funds through the following City programs:

- Affordable Housing Trust Fund
- Minneapolis Homes Development Assistance
- Homeownership Works
- 4% or 9% tax credit
- Minneapolis Homes BUILD homebuyer incentive
- Grow North or HOM Homebuyer Assistance

Submission Requirements

The City will conduct a Request for Proposals process to solicit applications for funding proposals. Proposal requirements will be fully outlined in the release of the RFP. All proposals must meet the following requirements.

- Be cost reasonable and reflect industry standards for construction cost, market value, and soft costs. Developer fee is limited to 10% of total development cost for projects less than 10 units and 15% for all others.
- Provide a project budget showing sources and uses, including documentation of committed financing. Rental proposals must provide a cash flow statement consistent with the affordability term and a management plan.
- Provide a conceptual design showing building elevations and a site plan.
- Demonstrate site control of and feasibility of a three or more-unit development on non-City owned property or include an offer to purchase of a City-owned property.

Criteria for Selection

All proposals that meet eligibility, affordability, and submission requirements stated above will be considered. Preference will be provided to proposals that demonstrate the following optional criteria:

Cost-Effective

- Development teams with significant experience constructing and managing similar projects to what is proposed for the site
- Proposals that minimize City subsidy request
- Proposals that maximize residential density of the project site
- Proposals that will develop current City-owned land
- Proposals that are easily replicable and will serve as a demonstration for other sites

Meet Local Affordable Housing Needs

- Developers who demonstrate an historic rate of service and/or a robust marketing plan to people of color, indigenous, disabled, or 50% AMI or below households
- Projects that will serve households at income levels below program minimums
- Projects that create a greater proportion of affordable units than program requirements
- Projects created in partnership with community residents as an anti-displacement strategy. NOTE: A letter of support from community residents is necessary to receive preference

Equitable Work Opportunities

- Projects from developers or development teams led by women (51% or more of board or ownership)
- Projects from developers or development teams led by people of color or indigenous (51% or more of board or ownership)
- Projects led by developers with historic utilization rate of ex-offenders, Section 3, DBE businesses, and workforce utilization to exceed Minneapolis Civil Rights criteria
- Partnership with workforce development organizations. NOTE: A letter of support from the organization must be included to receive preference

Design Features

- Projects that provide access to households with disabilities
- Projects that provide family units of 3+ bedrooms

- Projects that will seek certification through a sustainable building program, such as LEED, PHIUS+, PHI, or Enterprise Green Communities

Compliance Requirements

- An **Affirmative Action Plan and a Pre-Construction Booklet** with current workforce hiring goals for minority and women are required for all projects.
- **The CPED Prevailing Wage and Registered Apprenticeship Policies** apply to any project with eight or more units.
- **Small and Underutilized Business Program goals** are required for any project that receives more than \$175,000 of City subsidy.