



# Alan Arthur

Over next two decades, housing situation for lower-income persons in Twin Cities and nationally will be worst since Great Depression of 1930s

A Minnesota Affordable Housing Policy Interview

*September 20, 2019*

Nonprofit housing developer Aeon's President and CEO Arthur Alan discussed the operation of his organization and the factors contributing to a worsening housing situation in the Twin Cities and nationally over the next two decades. He explains how Aeon accesses cheaper money than in the private market for developing and rehabbing affordable housing projects. He noted Aeon's 2016 target of adding 3,000 affordable units to its portfolio by 2021, its property management and operating costs at its properties, and the loss of affordable housing options.

## Present

John Adams, Alan Arthur, Janis Clay (executive director), Pat Davies, Paul Gilje, Paul Ostrow (chair), Dana Schroeder (associate director), T Williams.

## Summary

Alan Arthur, president and CEO of Aeon, a Minneapolis-based nonprofit housing developer, believes the next two decades will bring the worst housing situation for lower-income people since the Great Depression in the 1930s. He discusses contributing factors and says it's fundamentally an economic problem leading to people being unable to afford housing.

He discusses Aeon's partnerships with equity partners that allows it access to money that is cheaper than in the private marketplace. Aeon's 2016 strategic plans set a target of getting access to \$100 million over a five-year period ending in 2021, allowing it to add 3,000 affordable housing units to its portfolio by the end of 2021.

Arthur says Aeon now manages its own properties and screens potential tenants for their criminal history, rental history and credit history. He notes that base operating expenses (not including mortgage-loan payments) for its properties are sometimes a little higher than in the private marketplace because of additional regulatory and compliance costs related to its funding sources.

Arthur discusses the loss of affordable housing options, such as single-room occupancy buildings and manufactured-home parks. He also mentions a new option piloted in Cleveland that is partnering older single women who have extra bedroom space with single women with one or two children, lowering rental costs for the tenants and providing additional income and home assistance for the older homeowner.

He concludes by saying that people need to know about the housing issues to do something about them and that we must act and not just talk about the problem.

## Biography

**Alan Arthur** has served as president and CEO of Aeon since 1988. He brings over 50 years of experience in housing and real estate development, working in the fields of construction, project development, lending, code enforcement and city planning. He trains organizations on affordable housing development, financing and organizational governance. He has served on numerous local and national housing boards and currently serves on the board of the national Housing Partnership Network and the local Towerside Innovation District.

Arthur earned a B.A. in political science from Benedictine College in Atchison, Kansas.

## Background

The Civic Caucus has been focusing on the topic of affordable housing in its interviews since late October 2018. All of those interviews are available on the [Civic Caucus website](#). The Caucus interviewed Alan Arthur to learn about the operation of Aeon, a nonprofit affordable housing developer, and to get his perspective on issues surrounding housing for people with low incomes.

**About Aeon.** Founded in 1986, [Aeon](#) is a Minneapolis-based, nonprofit housing developer, owner, and manager that has built, acquired or rehabbed more than 50 multifamily affordable housing properties in the Twin Cities. Its projects are located in 17 cities in and

around the Twin Cities to meet the needs of a diverse clientele, including homeless youth and chemically dependent adults. Aeon recently proposed that it construct and operate a project to be located on the parking lot next to St. Olaf Catholic Church, right in the heart of downtown.

Aeon was founded by local housing activists and leaders from four Minneapolis churches: Westminster Presbyterian, Wesley United Methodist, Hennepin Avenue United Methodist and Central Lutheran. Aeon President and CEO Alan Arthur said that Aeon continues to have a strong, ongoing relationship with Westminster Church. He noted that the Wesley congregation is now defunct.

Arthur said Aeon's name comes from the Latin word for eon, or an immeasurably long period of time, basically forever. Aeon's vision is that every person has a home and is interconnected with the community. He also said, "Affordable housing is an economic issue. It takes significant capital to do what we do."

Since 1986, Aeon has built, purchased or renovated more than 4,400 apartments and townhomes, 550 of which serve people who are homeless. These homes provide stability to more than 9,000 people each year, according to Aeon's website. Forty percent of the homes' residents have income below 30 percent of area median income (AMI), Arthur said. AMI in 2019 for a family of four in the metro area is \$100,000, according to the Metropolitan Council.

Aeon's housing projects started in the Elliot Park neighborhood, at the southeast corner of downtown Minneapolis. The organization has about 950 apartments in Elliot Park. Aeon has about 1,500 housing units within walking distance of the IDS Center in downtown Minneapolis. Two of Aeon's buildings in downtown Minneapolis include The Archdale (16<sup>th</sup> Street and First Avenue South), which provides supportive housing for homeless youth, and the Continental Hotel (12<sup>th</sup> Street and LaSalle Avenue), which is supportive housing for homeless adults.

Aeon now has housing projects located in Minneapolis, Saint Paul, Roseville, Maplewood, Columbia Heights, New Hope, Brooklyn Center, Richfield, Bloomington, Chaska, the City of Ramsey, and Big Lake and is planning projects in Edina and elsewhere in the Twin Cities.

## Discussion

### 1. The worsening housing situation.

**The next two decades will bring the worst housing situation for low-income people since the Great Depression in the 1930s.** Arthur predicts that homelessness is going to double in the Twin Cities and across the country. He named a number of factors that have or will contribute to the worsening situation, including:

- Since the mid-1980s, the federal government has been backing away from key affordable housing production programs, including Section 8 and Public Housing. He predicts that the current presidential campaign will be the first time in 50 years that candidates will even talk about affordable housing.
- Across the country, 10,000 people turn 65 every day and 30 percent of them have incomes below the poverty level.
- Minnesota will have 700,000 to 900,000 people coming to the state over the next 15 years. That probably translates to about 300,000 new jobs, with half of them paying too little for people to afford most market housing.
- The Twin Cities is losing 75 to 100 affordable housing units per week (4,000-5,000 per year) through the sale of naturally occurring affordable housing (NOAH) to investors and developers. This is a big group of older properties, Arthur said, that has been providing reasonably priced rents. Developers have been buying these units at a relatively low price, rehabbing them a bit and then raising rents by \$250, \$350 or even \$600 or more.
- Only about 1,500 new affordable units per year are developed in the entire State of Minnesota.
- In Minnesota, more than 200,000 households are already paying more than they can afford for housing, which is defined as more than 30 percent of their income. About half of them pay more than 50 percent of their meager income for their housing. Arthur said a good chunk of them are in the metro area.

**It's fundamentally an economic problem; people can't afford to pay for housing.**

Arthur said figures from the Minnesota Department of Employment and Economic Development (DEED) show that incomes in Minnesota have declined by 14.9 percent since 2010, and rents are steadily rising.

He said that almost half the jobs we create are at wages so low that workers can't afford housing. He said that about 17 percent of jobs are below minimum wage levels, and about 35 percent of jobs in Minnesota pay \$15 an hour or less.

Arthur said so-called "workforce housing" can be produced under Section 42 of the U.S. Tax Code, using four percent low-income housing tax credits (LIHTC). This housing has been typically aimed at households earning around 60 percent of area median income (AMI). According to the Metropolitan Council, AMI in the Twin Cities standard metropolitan statistical area (SMSA) in 2019 is \$100,000 for a family of four. So, 60 percent of AMI would be \$60,000 for a family of four and about \$42,000 for a single person.

(**Note:** For more on the LHITC program and how it is used by developers, see notes from the June 21, 2019, [Civic Caucus interview with Dominion Housing's Owen Metz and Paula Prah.](#))

Under a new federal rule, Arthur said, an affordable housing tax-credit project can do "income averaging," which means that a portion of the rents can be higher than 60 percent of AMI if a similar number are equivalently lower than 60 percent of AMI.

One recent indication of the tremendous demand for decent, affordable homes, Arthur said, is that 1,000 families were waiting in line for an Aeon project containing 47 housing units. And in the City of Ramsey, a new Aeon building was basically filled in one day.

## **2. Aeon's new strategic plan and access to cheaper money.**

**Aeon created a new strategic plan in 2016.** Arthur said, "We said to ourselves 'If we keep doing things the way we've been doing them, we'll only produce 100 or 200 affordable housing units per year.' How can we build four or five times more units per year? We need cheaper money."

He said Aeon set a target of getting access to \$100 million over a five-year period (between 2017 and 2021) and adding at least 3,000 units to its portfolio by the end of 2021.

"We looked around our housing world locally and nationally," he said. "We formed relationships with four organizations nationally and locally who are our equity partners. With national nonprofit peers, we own a nonprofit Real Estate Investment Trust (REIT) and we formed a strong relationship with the Greater Minnesota Housing Fund."

Arthur said those partnerships allow Aeon access to money that is cheaper than what is available in the private marketplace. He said the annual private market investment return expectations range from 10 to 20 percent profit or more. With Aeon's equity partners, the annual investment return expectation ranges from two to 12 percent.

Arthur said access to the cheaper money has allowed Aeon already to acquire more than 1,750 NOAH apartments. The organization plans to add 500 to 700 units of NOAH apartments to its portfolio each year for the next year or two.

Arthur said the cities of Minneapolis and Saint Paul have also put money in as equity for affordable housing projects, which they'll get back. He said Aeon is trying to get more cities involved. And he noted that more and more people are trying to make social-impact investments with their capital.

"We'd have to be really bad at what we do to totally fail," he said.

### **Why has Aeon decided to build housing next to St. Olaf Church in downtown**

**Minneapolis?** An interviewer asked that question and Arthur replied that downtown has lost many affordable units and there are not a lot of opportunities to build downtown. "We're taking facilities St. Olaf already has-their parking lot and the Exodus building," he said. "Building affordable housing downtown will give the tenants access to all the things other people have-it's a transit-rich and jobs-rich location."

### **3. Property management and operating costs.**

**Aeon manages its own properties.** Historically, Arthur said, Aeon used third-party property management companies. "Then we decided we needed to do that," he said. "So, 13 or 14 years ago, we bought one of our property management companies."

**Aeon screens potential tenants for their criminal history, rental history and credit history.** "Both we and our residents must be accountable," Arthur said, "If people doing stuff to hurt other people or cause chaos, it would be impossible for residents to achieve home." He said he recognizes the injustice of our legal system and the inequities it causes. "It's good to give people an opportunity without putting everybody else at risk. There is a balance to be achieved."

He said a Wilder Foundation study found that many kinds of criminal history do not impact housing success. It showed that 11 out of 15 categories of criminal history had no effect on housing success, but four categories had moderate impact. Also to be considered is the potential scale of the impact, he said. "For example, we don't allow convicted arsonists in our buildings," he said.

"There is a continuum of decisions we have to make to figure out who we let into our buildings," Arthur said. "Every property is different. In buildings for homeless youth, for both us and our youth to be successful, we need a 24-hour front desk and support services."

**Aeon's operating expenses are somewhat higher than in the private marketplace.**

Arthur said that's because affordable housing is so highly regulated. He said that for some properties, Aeon spends about \$25 per unit per month on regulatory and compliance tracking and reporting. That cost must be passed through to residents as higher rent.

The operating costs for properties with people with incomes at or below 30 percent of AMI are higher than in the private marketplace or other affordable properties, he said, because of the cost of additional services and support.

Homelessness is not caused by addiction or alcohol, Arthur said, but by the financial inability to pay for housing. But those challenges often contribute to the operating costs when tenants have those issues. "Our goal is to work with people and deal with those

situations," he said, "but we don't do case management directly. We partner with social-service agencies to provide intensive services and case management. Some of our resident-connections staff are assigned to buildings with lower-income tenants. Those staff jump up and try to help resolve a situation when a family runs into problems."

Currently there is fierce competition for property staff of all kinds. "We desperately need people who know how to fix stuff," Arthur continued. "We constantly seek quality site managers, assistant site managers, maintenance staff and caretakers."

#### **4. Use of low-income housing tax credits (LIHTC).**

**All of Aeon's housing projects are primarily financed to include nine-percent LIHTC tax-credit equity, except for the organization's acquisition and rehabilitation of NOAH units.** It's hard to get approved for a LIHTC project, Arthur said. The state received about 100 applications for tax credits this year and will likely only have enough tax credits available for about 12 to 13 of them, he said.

(**Note:** For more on the LIHTC program and how it is used by developers, see notes from the June 21, 2019, [Civic Caucus interview with Dominion Housing's Owen Metz and Paula Prah](#) .)

**Aeon must verify the incomes of its tenants every year to make sure they are still eligible under the income guidelines for a particular project .** "There is a limit for income," Arthur said, "and it's unusual that people would cross that line before they'd move somewhere else. And a good chunk of our tenants will live at their home until they die, because they aren't going to have the resources to move anywhere else."

#### **5. Loss of affordable housing options and an additional option.**

**Minneapolis lost 4,500 units in single-room occupancy buildings between the mid-1960s and mid-1980s.** "That's how we got started, because of that loss," Arthur said. "We were established in 1986 to try to stem that loss and replace some of the loss." Aeon owns many small studio apartments in downtown Minneapolis area that are 300 square feet or less. "In Minneapolis, if we wanted to build units less than 350 square feet, we'd have to get special permission from the city. And we prefer that each unit has its own bathroom and kitchen or kitchenette," he said.

**In the future, Aeon will consider acquiring manufactured housing parks.** Arthur said these parks are being lost at rapid rate as an affordable housing option. "It's some of the most affordable housing in our community and the continual loss is a major, major problem," he said.

An interviewer pointed out that many jurisdictions forbid mobile home parks because they don't pay property taxes. He wondered if anybody has talked about the state holding communities harmless if they accept the parks. Arthur called that a brilliant idea. "Perhaps the state will do that when the pain is great enough," he said.

**Are there empty bedrooms around the Twin Cities area owned by people who could use additional money?** An interviewer asked that question and Arthur replied that there is an organization in Cleveland that has made over 500 matches partnering older single women who have extra bedroom space with single women with one or two children. For example, the boarders might pay \$700 a month in rent, instead of \$1,400. "It's an interesting program," Arthur said, "And it helps both the homeowner and the renters."

The interviewer asked if there would be any legal obstacles to doing that and Arthur replied, "I think the community could figure out how to get around them."

## **6. Getting zoning for new projects approved.**

**Getting projects approved is about building relationships with the community.** Arthur said he never worried about zoning changes being approved for Aeon's affordable housing projects. But he has had his life threatened by people who are angry about the location of a new project. He said it's important to build relationships with people in the community.

**The 2040 Plan in Minneapolis is much ado about nothing.** "The 2040 Plan is not going to make a significant difference to our city or our neighborhoods or make a significant difference in affordable housing," Arthur said. The 2040 Plan attempts to increase density by restricting zoning for single-family residential housing in Minneapolis. "Most of the great neighborhoods of the world and of this country have mixed housing density and housing options."

**The argument over setting a \$15 minimum wage is also much ado about nothing.** Arthur said when the \$15 minimum wage actually takes hold in several years, wages will likely have risen to that level or above. "People earning \$15 an hour often can't afford decent housing," he said. "We should be arguing over putting \$20 minimum wages in effect now, not \$15 an hour in 3 or 4 years."

## **7. Conclusion.**

**The more we know about the issues surrounding housing for people with low incomes, the more chance we have to do something about the situation.** "We can make choices not to solve problems, but we should at least know about and understand them," Arthur said.



The data shows increased homelessness will happen, he said. "Look at Seattle and Portland. Most of the programs or ideas being offered to fix this problem are good if they give people a place to live and we actually implement them. Let's do; let's act; sitting around and talking is the worst."