



Steve Wellington

Find most efficient way to develop 8,000 affordable housing units each year in Minnesota

A Minnesota Affordable Housing Policy Interview

May 3, 2019

Steve Wellington of Wellington Management, Inc., says we must think about the most efficient way to reach the goal of developing 8,000 affordable housing units each year in Minnesota. He says we must focus first on the homelessness situation and raises the question of how we should use our affordable housing resources. He talks about the reasons behind the rising cost of affordable housing and addresses potential ways to house more people affordably.

Present

John Adams, Steve Anderson, John Cairns (vice chair), Audrey Clay, Janis Clay (executive director), Sheldon Clay, Randy Johnson, Lee Munnich, Paul Ostrow (chair), Dana Schroeder (associate director), Clarence Shallbetter, Steve Wellington, T Williams.

Summary

In a recent interview with the Civic Caucus, Steve Wellington, president and owner of Wellington Management, Inc. (WMI), said we must think about the most efficient way to reach the goal of developing 8,000 affordable housing units each year in Minnesota. He said it would be more efficient to pick one, two or three people and give them the resources to develop affordable units, rather than picking developers one at a time. (WMI is a real

estate development, leasing and property-management company that specializes in Twin Cities-area commercial and residential real estate-both market-rate and affordable housing.)

Wellington said we must first look at the homelessness situation, since those are the people who are most desperate. He believes there must be a governmental role in dealing with homelessness. The question, he said, is how we should use our housing resources-for workforce housing for people at 60 percent of area median income or to solve homelessness? He said we'd have a chance to eliminate homelessness if we used all our resources to do that, but it would not be popular.

From a housing production standpoint, Wellington said, housing for people at the lower-income level has to be free-that is, paid for by someone else. He said developers can build safe housing inexpensively, but neighborhood opposition to developing affordable family housing has been so strong that developers have had to move toward more expensive, higher-quality buildings. That leaves developers predisposed to invest in affordable housing units that cost \$200,000 to \$250,000 each to build, he said.

The major cost drivers behind the escalating cost of affordable housing, Wellington said, are the costs of land, labor and materials, brought on by the resurgent economy in the Twin Cities.

Biography

Stephen Wellington is president and owner of [Wellington Management, Inc.](#) (WMI), a real estate development, leasing and property-management company. This Saint Paul-based firm celebrated its 30th anniversary in 2015. WMI was established in 1984 and specializes in commercial and residential real estate in the Twin Cities metropolitan area.

WMI has acquired, developed and redeveloped over 100 properties in 18 different Twin Cities communities. The company manages 3.9 million square feet of office, retail and industrial space, which accommodates over 525 different tenants. WMI has 199 apartment units under management and is planning to construct an additional 340 apartment units in 2019 and 2020. WMI has a staff of 32 property managers, accountants, building engineers and development professionals who oversee a \$450 million portfolio of Twin Cities real estate.

Wellington was selected by the *Twin Cities Business Journal* as one of 10 "Most Admired CEOs" in 2017. WMI was the recipient of the Midway Chamber of Commerce "Business of the Year" award in 2002 and also received recognition from the Saint Paul Area Chamber of Commerce as "Small Business of the Year" in 2003. The company's Drake Building

restoration project was honored by Saint Paul's Historic Preservation Commission as one of 10 outstanding projects in 2002. Penn Lowry Crossing won a "Best in Real Estate" award in 2008 from the *Twin Cities Business Journal*.

From 1976 to 1984, Wellington worked for the City of Saint Paul, first as an aide to Mayor George Latimer and then as Deputy Director of Development for the city's Department of Planning and Economic Development. His work with the City of Saint Paul included his involvement in establishing the Family Housing Fund, the development of a 200-acre mixed-used redevelopment project in Energy Park and the creation of District Energy. In 1976 and 1977, he served as a researcher for the Minneapolis/Saint Paul Study, a special project established by the Minnesota Legislature to analyze the finances of the cities of Minneapolis and Saint Paul.

Wellington served as a member of the Metropolitan Council between 1993 and 1999. He currently serves as board chair at Drake Bank. He is also board member and past chair of Regions Hospital and is one of the founders of Beacon Interfaith Housing Collaborative, a nonprofit developer and owner of 500 affordable housing units in the Twin Cities.

Wellington grew up in Boston and is a 1971 *cum laude* graduate of Yale University, majoring in English literature. He moved to Saint Paul in 1974 and obtained a master's degree in public affairs from the University of Minnesota's Humphrey School of Public Affairs in 1976. He received a second master's degree from Stanford University's Graduate School of Business in 1984, as a result of a Bush Foundation Fellowship. He and his wife, Kathy, have three grown children and live in the St. Anthony Park neighborhood of Saint Paul.

Background

The Civic Caucus is undertaking a review of the issue of affordable housing in Minnesota. The Caucus interviewed Steve Wellington of Wellington Management, Inc., to learn about the private-sector supply side of developing affordable housing.

To see all of the previous Civic Caucus interviews on affordable housing, go to the [Civic Caucus website](#).

Discussion

1. Wellington Management, Inc.

Since 1984, Wellington Management, Inc., (WMI) has acquired, developed and redeveloped over 100 buildings with over 525 tenants. Wellington Management, Inc., President Steve Wellington said WMI has built commercial properties and both market-rate

and affordable housing. "I'm involved in capitalism," he said. He also helped start Beacon Interfaith Housing, a nonprofit that has created 500 units of affordable housing.

What's the responsibility of corporations to society? An interviewer asked that question and Wellington replied that he tries to be optimistic. "But the most challenging thing when I started the business in the 1980s was the number of crooks in the business world doing terrible, ruthless things," he said. "Our company's passion has been doing stuff that was more valuable to society than just making money. We have a better workforce because of the charitable work we do. There are 18 Fortune 500 companies in Minnesota, but a lot of folks are not interested in doing that kind of work."

2. Types of affordable housing.

Affordable housing has come to the forefront of public-policy discussions. Wellington noted that Tim Marx, Minnesota Housing Finance Agency commissioner under the administration of former Governor Tim Pawlenty, blazed the way for selling general-obligation bonds for housing.

Wellington said there was a movement under Pawlenty to eliminate homelessness. "But most people see that the way the economy has developed, it's gotten worse," he said. "There is a crisis of a terrible shortage of resources to meet the need."

He said affordable housing is a very broad area. It's important, he said, to distinguish among people who need affordable housing. There are people who earn 60 percent or less of area median income (AMI), who can afford workforce housing with a shallow subsidy. There are also people who earn less than 30 percent of AMI, who need deep subsidies.

Workforce housing is more popular with the general population than housing for very low-income people. Wellington said the public wants working people earning between 30 percent and 60 percent of AMI to be housed in an efficient and humane manner. "There is public support for housing for teachers, police officers and seniors," he said. He noted that small-town Minnesota needs workforce housing, as does the metro area.

The question, he said, is how we should use our housing resources-for workforce housing for people making \$15 to \$20 an hour or to solve homelessness, which is completely different. "We'd have a chance to eliminate homelessness if we used all our resources to do that, but it would not be popular," he said. "It's difficult to house people with lots of social problems."

Is the affordable housing industry a redevelopment racket or is it addressing a need? Wellington asked that question and pointed to the redevelopment of the Pillsbury A Mill in Minneapolis and the redevelopment project by Dominion Management Services at Fort Snelling that is using affordable housing credits to rescue the old buildings at the Fort.

"That's a redevelopment project, not a poverty program, which makes it much more popular," he said.

He said the redevelopment on West Broadway in Minneapolis is also a redevelopment project, not a poverty program, and that Habitat for Humanity is not a poverty program.

We haven't identified the mileposts in the affordable housing journey that would allow us to develop strategies to get us to those mileposts and to recognize progress along the way. An interviewer made that statement and said we seem to be clogged in the middle, picking off a little at a time. Wellington said it was a very perceptive comment.

Wellington discussed the history of affordable housing in the country. The federal government made a big investment in the 1950s, when HUD began building public housing. The housing was criticized for lower-quality construction and for concentrating poor people, he said.

Then the strategy changed to Section 8 housing vouchers, which are still around and which, he said, were more of a Republican idea. In the 1980s, Wellington said, the tax-credit world emerged. There was bipartisan support for these grants from the IRS, which he called tax breaks to millionaires to build affordable housing. The housing, he said, was of a higher quality and difficult to flip in 15 years.

The low-income housing tax credit (LIHTC), he said, is much more successful and bipartisan. He said we could triple the amount of LIHTCs. "It's not such a bad arrangement," he said. "We need confidence as a nation to keep addressing the issue."

3. Need for services along with affordable housing.

From a housing production standpoint, housing for people at the lower-income level has to be free. "It must be paid for by someone else," Wellington said. "That's not an easy message to deliver." He said people at the lower-income level generally need some services, such as for people with disabilities or a history of drug usage. "We need to provide those services, which is very expensive," he said.

He mentioned Beacon's Great River Landings development for people coming out of incarceration as an example of housing where services are provided. But he noted that many social workers are opposed to the idea of having people with problems living in a concentrated fashion and advocate scattered-site housing. Wellington believes, though, that it's most efficient to develop a project like Beacon's new development for homeless youth in Edina, where the residents can receive the services they need on site.

But, he said, there is a lack of funding for providing services. "Nonprofits are end-running the counties to pay for services," he said. "The housing doesn't do any good without services. The whole system is busted up."

4. Constraints on developers, builders and managers

of affordable housing.

What constraints do developers and builders face in providing affordable housing?

An interviewer asked that question and Wellington responded that developers can build safe housing inexpensively, but will it be popular? He noted that Tom Fulton, former head of Minnesota's Family Housing Fund, said the biggest challenge in developing affordable family housing was such strong opposition from neighborhoods that the program had to move to more expensive, higher quality housing that would last longer. That leads developers to have a predisposition to invest in housing units that cost \$200,000 to \$250,000 each, Wellington said.

He said WMI has a very successful affordable-housing project with 135 units, located in Minneapolis on the west side of Hiawatha Avenue, two blocks south of Lake Street. "It's doing fine from both a social perspective and an economic perspective," he said. "We could build things for half that price, but will it be sustainable?"

What kinds of legal issues constrain development of affordable housing? An interviewer asked that question and Wellington pointed to the example of single-room occupancy (SRO) housing. He said Saint Paul allows SRO housing, but Minneapolis does not, requiring every housing unit to have a bathroom and a kitchen.

"SRO housing is less expensive by a huge measure," he said. "Residents can develop a sense of community using shared kitchens and bathrooms." But, he said, SROs have a mixed history. "It's not easy to have poor people sharing food in cupboards."

Wellington said nonprofit progressives would say they don't want to be unpopular by developing SRO housing. And, he said, banks don't want to finance SROs.

What are the major cost drivers behind the escalating cost of affordable housing? An interviewer asked that question and Wellington responded, "The villain is the resurgent economy in the Twin Cities. That drives up the cost of land and materials." He said if there were a recession, land prices would go down.

"We're not at the level of Denver or San Francisco, but we're competing with them," he said. "Portland has had a huge burst in costs. The housing market there is broken."

Wellington said some tech companies are moving to the Twin Cities because housing is cheaper. "Knowledge is our future," he said. "There will be more squeezing of housing costs with catering to the knowledge generation."

He noted that lumber prices are down, but said the bigger cost is labor. Immigration policy is part of the labor picture, he said. With the tight labor market, he said, sometimes contracted construction crews just don't show up, because they can go somewhere else where the pay is higher. "The way you get more labor is to pay them more," he said.

He noted that there are few apprentices training in, for example, carpenters unions and said there are hundreds of empty seats at Dunwoody College of Technology in Minneapolis.

There is a bill in the Legislature this session that would prohibit background checks on potential tenants. "Property managers think legislators have lost their minds," Wellington said. His company has a much easier time managing its family housing project than its senior housing project, he said, due to misbehavior by some of the senior residents.

If we don't give property managers the right to police their housing units, there will be chaos. Wellington said his company has managers on site at all its apartment buildings. He said the biggest challenge is to have a 24/7 front desk, which restores order. He said building maintenance is not that expensive, but providing adequate social services can be very expensive.

What about Minneapolis's 2040 plan to increase density in the city? An interviewer asked that question and Wellington said he's excited about more density. He noted that when he served on the Metropolitan Council in the 1990s, the Council did a survey asking people where they'd like to live. People's first choice, he said, was to live in a small town. "That's what people want: a small town with urban services," he said.

"So the 2040 plan is revolutionary," he said. "The next generation is saying maybe they'll abandon the small-town concept and live in multistory buildings."

The location of affordable housing is an unresolved issue. "It's a dilemma," Wellington said. "I'm conflicted." He said studies have shown that poor families in middle-class neighborhoods do better. "But Somali families do not want to live in Minnetonka," he said. He noted that Myron Orfield, professor at the University of Minnesota Law School and director of the University's Institute on Metropolitan Opportunity, wants to mandate dispersal of affordable housing.

"Geography is an unresolved issue," Wellington said. "The Metropolitan Council has adjudicated this unsuccessfully."

5. Possible options for providing more affordable housing.

What are the top things to change in order to build more affordable housing? An interviewer asked that question and Wellington responded:

1. We must look first at the homelessness situation, since those are the people who are most desperate. There must be a governmental role in dealing with homelessness, he said. "We need thoughtful mental-health infrastructure," he said. "And we need reform at the county level in terms of thinking about homelessness."

"Providing housing with services is a lot cheaper than paying for prisons and emergency-room visits," he continued. "We have to get everybody to work together and focus on health care first. We must address the people most in need." He suggested trying to get all the major health care providers and insurers to consider making a financial contribution.

2. Another priority, he said, is to address things that are more popular, like building codes and the way housing is developed. "We must find answers that can get to scale," he said. "We must think about production and how we can reach the goal of developing 8,000 affordable units each year in Minnesota. One development at a time is the most elaborate and inefficient system. It's more efficient to pick one or two or three people and give them the resources to develop affordable units."

What is the possible place of manufactured housing in the metro area? An interviewer asked that question and said people could buy manufactured homes for \$60,000 to \$70,000, even though they won't last as long as traditional homes. Also, the interviewer said, cities' reliance on property taxes has the indirect effect of discouraging cities from allowing cheaper manufactured housing.

Wellington responded that developers won't be building trailer parks for poor people.

After World War II, the federal government guaranteed mortgage loans for veterans. An interviewer made that comment and Wellington responded that workforce housing-for people at 60 percent to 80 percent of area median income (AMI)-can, in some cases, get cut-rate financing at the Minnesota Housing Finance Agency. This focus on workforce housing is popular, but resources so far have been insufficient.

"We could deepen the subsidies for workforce housing to make it available for people with incomes at 50 percent to 80 percent of AMI," Wellington said. "It'd be easier to get shallow subsidies because workforce housing is more popular. But that's not addressing the critical need of the poorest people." He said it's important to remember that all of our housing is subsidized through mortgage-interest deductions and other means.

We have a lot of room in the existing housing stock that could be shared. Wellington said there are a lot of lonely people with existing empty bedrooms in their homes who could share their excess space with people who need housing. He said we now have a sharing economy with things like ride sharing through Uber.

He suggested that someone could set up a website to match people who have excess space in their homes with people who need housing. He said zoning codes generally don't allow unaffiliated people to share housing. "But they're not shutting down Airbnbs," he said.

Would an ownership model work better in providing affordable housing? An interviewer asked that question and said there is healthy skepticism about Minneapolis's 2040 plan, because it's like turning the keys to the kingdom over to for-profit developers and absentee landlords.

Wellington responded that using an ownership model for duplexes, triplexes and four-plexes would come dangerously close to keeping poor people out. The owners would have to be middle class. "And how would we police the owners to see if they're really living on site?" he asked.

6. Conclusion.

The most important thing for the Civic Caucus to do is to introduce honesty and clarity into the discussion of affordable housing. Wellington said the Civic Caucus could clarify the most misunderstood issues in the discussion-say, five things we all need to think through carefully