



Request for City Council Committee Action from the Department of Community Planning and Economic Development

Date: March 20, 2012

To: Council Member Lisa Goodman, Chair, Community Development Committee

Subject: Disposition of land-banked lots acquired under the Neighborhood Stabilization Program (NSP)

Recommendation: It is recommended that the City Council authorize staff to begin marketing and sale of properties acquired under the Land Banking strategy of the City's NSP 1, 2 and 3 programs using the City's normal disposition policies and procedures for development parcels.

Previous Directives: None

Department Information

Prepared by: Edie Oliveto-Oates, Senior Project Coordinator, 612-673-5229

Approved by: Charles T. Lutz, Interim CPED Director

Thomas A. Streitz, Director Housing Policy & Development

Presenters in Committee: Edie Oliveto-Oates, Senior Project Coordinator

Financial Impact

- Action is within the Business Plan and will reduce property management costs.

Community Impact

- Neighborhood Notification: Not applicable
- City Goals: Livable Communities, Healthy Lives
 - Our built and natural environment adds character to our city, enhances our health and enriches our lives
 - High-quality, affordable housing for all ages and stages in every neighborhood.
- Comprehensive Plan: Generally, the hold and release of these properties is consistent with The Minneapolis Plan for Sustainable Growth. As projects proceed to development, additional review will be necessary to ensure consistency with the Comprehensive Plan.
- Zoning Code: All properties currently comply.

Supporting Information

The Minneapolis Foreclosure Recovery Plan contemplates strategic and timely government intervention in the housing market. The three points of the Minneapolis Foreclosure Recovery Plan are: (1) Prevention: continue foreclosure prevention outreach and counseling; (2) Reinvestment: pursue aggressive property acquisition and promote property development; and (3) Repositioning: engage in community building and marketing efforts.

NSP is a key component of the Minneapolis Foreclosure Recovery Plan. It implements the reinvestment strategy of the Plan. Minneapolis has received a total of \$32.4 from the U. S. Department of Housing & Urban Development (HUD) and Minnesota Housing (MHFA) through the NSP 1, 2 and 3 programs.

Using NSP 1 and 2 funds, CPED has strategically acquired 160 foreclosed or abandoned properties that could not be rehabilitated due to cost or condition, demolished them and held them as vacant land-banked parcels. CPED anticipates acquiring approximately 20 more properties under its NSP 3 land-bank activity.

The following language regarding land banking was included in each of our NSP applications to HUD and MHFA:

NSP 1:

- It is likely that some of these properties may be developed as housing affordable to households at 50% AMI within the four year period of the funding.
- It is the City's expectation to hold these vacant parcels (land bank) for an unspecified time period, not to exceed 10 years, until the market is ready to absorb new development of owner-occupied housing units. As required, the City will adhere to all acquisition, holding and disposition stipulations specified in the NSP notice.
- The City ultimately will redevelop or facilitate redevelopment for NSP and CDBG eligible uses that meet the LMMH national objective (120% AMI).
 - will be offered to both non-profit and for-profit entities;
 - for uses that benefit households with incomes at or below 120% AMI;
 - will, at a minimum, follow all NSP periods of affordability; and
 - if sold for redevelopment of housing occupied by households with incomes at or below 50% AMI within the four-year NSP period, any write-down of NSP funds used for acquisition would be credited to the City's 25% requirement.
- When the market improves, the City will seek the development of single family owner-occupied housing. However, where density is encouraged, the City will support development of multi-unit housing, in which case rental may be preferred.

NSP 2:

- Properties will be acquired, demolished if necessary, and land banked for future development.
- Acquired properties to be held until the market recovers.
- It is the Consortium's expectation to hold these vacant parcels (land bank) for an unspecified time period, not to exceed 10 years, until the market is ready to absorb new development of owner-occupied housing units.

NSP 3:

- Will hold properties for a minimum of 12 months.

CPED staff is starting to receive calls from prospective developers regarding city-owned vacant lots for development. As a result, staff believes the market is ready to absorb new development and therefore recommends marketing NSP land-banked properties at this time. Sales would not compete with rehabbed properties, because the prospective buyers' interest for new construction development differs from those in the market for rehabbed homes. Additionally, the sale of these properties will eliminate the city's future holding costs and produce program income to facilitate the treatment of additional properties.

CPED staff further recommends that the land-banked properties be removed from the NSP program, because NSP income and residency requirements will impede marketability, thus prevent the recovery which would be seen through sale and development of these

properties. Staff has received the following information from HUD regarding sale of properties out of the NSP program:

"The change in use requirements apply to all properties acquired or improved in the NSP program. What those requirements state is a property must continue to meet a national objective until 5 years after grant closeout. If a national objective is no longer going to be met, after consulting affected citizens, and the current FMV of the property is repaid, the new use does not need to meet a national objective."

Staff believes that sale of the land-banked properties in accordance with the City's Real Estate Disposition Policy and Procedures (see attached excerpt) would comply with the HUD guidance on "Change in Use" of an NSP property. The properties would be placed on the City's land inventory list with single family housing as the identified reuse and offered for sale at fair market value. Each offer to purchase would be subject to staff and neighborhood review, a public hearing and City Council approval. Land sale proceeds in an amount equal to the fair market value of each property would be returned to the NSP program and used to pay ongoing holding costs of NSP properties or acquisition of other eligible properties.

Excerpt of the City's Redevelopment Policy

2.2.4 Marketing Development Properties. Development Properties in the Land Inventory shall be offered for development, redevelopment or other public purposes and marketed by any of the following methods: (i) public bid by auction or sealed bid; (ii) request for proposals; (iii) direct negotiation and sale; (iv) through a broker as approved by the CPED Director; (v) pass-thru conduit sale of property owned by another governmental entity to a Purchaser that pays all costs of transfer and conveyance, including an administrative fee of up to 10% of the purchase price to the City; and (vi) public-use donation by dedication, gift or exchange to another governmental entity. Direct negotiation with a single Purchaser is not appropriate where another Purchaser has already submitted an Offer to Purchase the same Development Property or the Development Property is being marketed by public bid or request for proposals or the Development Property has been approved for exclusive development rights or disposition by the Council to another Purchaser or the CPED Director determines that a direct sale is not in the best interest of the City.

2.2.8 CPED Staff and Neighborhood Review; Infill Housing. CPED staff shall review and evaluate all development proposals and Offers to Purchase and make recommendations to the CPED Director and the Council and Mayor. Neighborhood review shall be done when required by City policy, state or federal laws or grant requirements; provided, however, that the review of "infill housing" shall be as follows. Affected neighborhood groups may review new infill single-family or duplex housing construction projects on Development Properties. The Purchaser and its representatives and CPED staff shall only be required to attend one neighborhood meeting to review the single-family or duplex housing proposal. The Council will only consider neighborhood comments that relate to building height and mass, front elevation, roof configuration, exterior materials, building setback and other similar design items. Neighborhood design guidelines should recommend what is desirable and not create an inflexible set of rules. Neighborhood recommendations that require any exterior or interior changes or upgrades that would have a significant cost impact on the project will only be considered by the Council if the Purchaser consents to such changes or upgrades and the neighborhood firmly commits to fund or finance for immediate payment, the changes or upgrades at no additional cost to the Purchaser. CPED staff will provide technical assistance to neighborhood groups to develop appropriate design guidelines or to review and revise existing design guidelines.