



Request for City Council Committee Action from the Department of Community Planning & Economic Development - CPED

Date: April 16, 2013
To: Council Member Lisa Goodman, Chair, Community Development Committee
Subject: Land Sale Public Hearing - Pass-Through Sale of 115 Fifth Street NE

Recommendation:

1. Approve the acquisition of 115 Fifth Street NE from Hennepin County-Tax Forfeited Land and simultaneous disposition to DRS Investments, LLC or an affiliated entity for \$90,000 plus Hennepin County and City of Minneapolis costs incurred in acquisition, holding, maintaining and administration of the property, including the City's 10% administration fee.
2. Authorize appropriate City officials to enter into a redevelopment contract and related documents in accordance with the terms herein, including the attached Term Sheet.

Previous Directives: None.

Prepared by: Cherie Shoquist, Principal Project Coordinator, 612 673.5078
Approved by: Charles T. Lutz, Deputy CPED Director _____
Thomas A. Streitz, Director Housing Policy & Development _____
Presenters in Committee: Cherie Shoquist, Principal Project Coordinator

Financial Impact

- Other financial impact: The City will collect an administrative pass through fee of \$9,000 at closing.

Community Impact

- Neighborhood Notification: Nicollet Island East Bank reviewed this proposal and recommended it be approved.
- City Goals: A SAFE PLACE TO CALL HOME In five years all Minneapolis residents will have a better quality of life and access to housing and services; residents will live in a healthy environment and benefit from healthy lifestyles; the city's infrastructure will be well-maintained and people will feel safe in the city.
- Comprehensive Plan: On January 22, 2013, the Planning Commission approved the sale of this parcel as being consistent with the Comprehensive Plan.
- Zoning Code: C2/Neighborhood Corridor Commercial District
- Other: On December 7, 2012, the Planning Staff completed a land sale review of this parcel and approved the proposed development.

Supporting Information

<u>PARCEL</u>	<u>ADDRESS</u>	<u>SALE PRICE</u>
TF-766	115 5 th ST NE	\$90,000 plus costs TBD

PURCHASER

DRS Investments LLC or an affiliated entity
401 Robert St N #150
St. Paul MN 55101

PROPOSED DEVELOPMENT:

Rehabilitation of the existing three story structure into twenty one 502-769 square foot one bedroom apartments and one 586 square foot two bedroom apartment, with market rate rents ranging from \$838-\$1,538.

The lot size is 66' X 165' = approximately 10,890 square feet

LAND DISPOSITION POLICY:

This property is being sold for development and will be improved by rehabilitation as defined by City policy.

FINANCING:

DRS Investments LLC has demonstrated it has sufficient funds for the proposed project.

OFFERING PROCEDURE:

Public Advertisement. The sales price of this property reflects Hennepin County's appraisal of value, but may not reflect the full re-use value.

COMMENTS:

The City of Minneapolis was notified on August 24, 2011, by Hennepin County that certain properties located within the jurisdiction of the municipality had forfeited to the State of Minnesota for unpaid taxes. The property located at 115 5th Street Northeast was included on that notification. During the City's due diligence process, staff learned that there was an interested party in developing the property. Subsequently, the property was placed on a six-month hold by the City Council. That hold expired on April 28, 2012 and the County continued the hold for the purpose of transferring the property by way of a City of Minneapolis Request for Proposals process to identify a qualified housing developer. The Request for Proposals process occurred in the summer of 2012. It was necessary for Hennepin County to resolve legal issues affecting the property which delayed moving the proposals forward from fall 2012 to spring 2013.

The Holmes Urban Renewal Plan supports market rate rental housing at this location, both in terms of the Plan's objectives and its Land Use Plan.

Objectives

The objectives of the Holmes Urban Renewal Plan include the objective: "To provide housing which will accommodate persons of all income levels..."

Land Use Plan

The Land Use Map for the project area was most recently modified in May 2012 to achieve consistency with the City's comprehensive plan and the Master Plan for the Marcy-Holmes Neighborhood (see the attached Holmes Modification No. 11).

The 115 Fifth Street NE property is in a "mixed use" category, which is described in the Plan as: "Mixed Use – Allows for mixed use development, including mixed use with residential. Mixed use may include either a mix of retail, office or residential uses within a building or within a district. There is no requirement that every building be mixed use."

The property is also within an Activity Center, described as: "Activity Center – Mix of uses with citywide and regional draw. High intensity of uses, including employment, commercial, office, and residential uses. Activity Centers typically have a busy street life with activity throughout the day and into the evening. They are heavily oriented towards pedestrians, and maintain a traditional urban form and scale. Activity Centers are also well served by transit."

The City received two responses to the 115 Fifth Street Northeast RFP:

DRS Investments LLC proposes twenty one 502-769 square foot one bedroom apartments and one 586 square foot two bedroom apartment with market rate rents ranging from \$838-\$1,538. The DRS Investments LCC offer purchase price will be equal to the Hennepin County Assessed Value (\$90,000) plus Hennepin County and City of Minneapolis costs incurred in acquisition, holding, maintaining and administration of the property, including the City's 10% administration fee. The total purchase cost is anticipated to range from approximately \$120,000 - \$150,000. Total development costs are proposed at nearly \$2 million.

Clare Housing proposed twenty three approximately 450-550 square foot efficiency apartments with support services for people with HIV/AIDS with subsidized rents ranging from \$434 - \$700. The Clare Housing offer purchase price offer was \$380,000. Total development costs were proposed at around \$5 million, and time would be needed to seek subsidies. Clare Housing is pursuing another project and is no longer interested in this site.

Based on consistency with the Redevelopment Plan, neighborhood review, timing considerations and overall financial feasibility, staff recommends sale of 115 Fifth Street Northeast to DRS Investments, LLC. The property is being sold in its as-is condition and the City is conveying tax title.

LAND SALE TERM SHEET

Property: Land and building at 115 5th St NE (PID 23-029-24-12-0039)

Seller: City of Minneapolis

Developer: DRS Investments, LLC or an affiliated entity.

Purchase Price: Fair market value, which Hennepin County has determined to be \$90,000 plus Hennepin County and city of Minneapolis costs incurred in acquisition, holding, maintaining and administration of the property.

Good Faith Deposit: 10% of Purchase Price; refundable upon completion of Minimum Improvements (defined below); due on execution of Redevelopment Contract (defined below).

Transaction Fee: 10% of Purchase Price; nonrefundable; due on execution of Redevelopment Contract.

Closing Date: Simultaneous with acquisition closing and no later than July 31, 2013.

Title Insurance Company: Guaranty Title[, as agent for Old Republic National Title Insurance Company].

Closing Costs: Seller will pay state deed tax, the costs of a title insurance commitment and one-half of the closing fees charged by the Title Insurance Company.

Developer will pay the cost of all premiums required for the issuance of the title insurance policy, mortgage registration tax, recording fees and one-half of the closing fees charged by the Title Insurance Company.

RE Taxes: The Property is currently exempt. Developer will be responsible for any real estate taxes payable in the year following the year of closing and subsequent years.

Special Assessments: It is the Seller's policy with respect to tax-forfeited redevelopment property in target neighborhoods to cancel all post-forfeiture assessments and charges in excess of fair market value and to waive its right to reassess or assess pre-forfeiture and post-forfeiture assessments and charges for nuisance abatement, but Seller may reassess or assess for public improvements and certain other purposes.

Developer's Conditions Precedent: Developer will have 30 days from execution of the Redevelopment Contract to perform/obtain the following due diligence:

1. Property inspection. Hennepin County will remove automobiles from the Property prior to closing. Seller, at Developer's request, will make arrangements with Hennepin County to allow Developer access to the property for inspection or investigation.
2. Environmental assessment. Hennepin County has provided Developer with copies of all environmental reports in its possession. The environmental consultant may charge \$250 to give a reliance letter to Developer. Developer, at its expense, will obtain a No Further Action Letter from MPCA.
3. Title. The State of Minnesota will convey only tax title to Seller. Hennepin County will provide a supplemental auditor's certificate, which may be sufficient for the Title Insurance Company to insure marketable title, but a title registration or quiet title action may be necessary.

No Representations/Warranties: "As Is, Where Is, With All Faults." Developer will release Seller with respect to property condition, environmental and title matters.

Seller's Obligations: Seller will obtain tax title from the State of Minnesota through Hennepin County and will simultaneously convey the Property to Developer by quit claim deed.

Minimum Improvements: Rehabilitate existing building as 22 market rate rental housing units and related improvements.

Construction Commencement: Not later than August 31, 2013.

Construction Completion: Within 12 months after commencement.

Broker: Developer will pay any broker commission due to any broker representing it in this transaction.

Redevelopment Contract: Within 10 days after City Council approval of the land sale on the terms outlined in this Term Sheet, Seller will prepare, at its expense, a Redevelopment Contract to be reviewed, negotiated in good faith and executed by the parties. The Redevelopment Contract will contain standard city requirements to ensure redevelopment of the Property, e.g. construction and financing plan approval prior to commencement of construction, transfer and encumbrance limitations prior to completion, reversionary rights, and a deed restriction regarding conformance with the Holmes Urban Renewal Plan, which supports market rate rental housing at this location.

Authorizing sale of land Tax Forfeiture Disposition Parcel No TF-766.

Whereas, the City of Minneapolis, hereinafter known as the City, has received an offer to purchase and develop Disposition Parcel TF-766 in the Nicollet Island - East Bank neighborhood, from DRS Investments, LLC or an affiliated entity, hereinafter known as the Redeveloper, the Parcel(s) TF-766, being the following described land situated in the City of Minneapolis, County of Hennepin, State of Minnesota to wit:

LEGAL DESCRIPTION

TF-766; 115 5th Street NE

Lot 3, Block 16, Mill Company's Addition to the Town of St. Anthony Falls

Whereas, the Redeveloper has offered to pay the sum of \$90,000 plus related costs, for Parcel TF-766; the offer includes a development plan and commitment to improve by rehabilitating the existing structure. This offer is in accordance with the Holmes Urban Renewal Redevelopment Plan; and

Whereas, the Redeveloper has submitted to the City a statement of financial responsibility and qualifications; and

Whereas, the City has had the re-use value reviewed by an appraisal expert, stating that the re-use value opinion is consistent with accepted methods of aiding the City in determining a re-use value for the Parcel; and

Whereas, pursuant to due notice thereof published in Finance and Commerce on Friday, April 5, 2013, a public hearing on the proposed sale was duly held on April 16, 2013, at the Minneapolis City Hall, 350 South 5th Street, Room 317, at 1:30 p.m., in the City of Minneapolis, County of Hennepin, State of Minnesota;

Now, Therefore, Be It Resolved by The City Council of The City of Minneapolis:

That the re-use value, for uses in accordance with the Holmes Urban Renewal Plan, as amended, is hereby estimated to be the sum of \$90,000 - \$414,000, for Parcel TF-766.

Be It Further Resolved that the acceptance of the offer and proposal is hereby determined to be in accordance with the City's approved disposition policy and it is further determined that the Redeveloper possesses the qualifications and financial resources necessary to acquire and develop the Parcel in accordance with the Holmes Urban Renewal Plan.

Be It Further Resolved that the proposal be and the same is hereby accepted, subject to the execution of a contract for the sale of land. Furthermore, that upon publication of this Resolution, the Finance Officer or other appropriate official of the City be and the same is hereby authorized to execute and deliver the contract to the Redeveloper; provided, however, that this Resolution does not constitute such a contract and no such contract shall be created until executed by the Finance Officer or other appropriate official of the City.

Be It Further Resolved that the Finance Officer or other appropriate official of the City is hereby authorized to execute and deliver a conveyance of the land to the Redeveloper in accordance with the provisions of the executed contract and upon payment to the City for the purchase price thereof; provided, however, that this Resolution does not constitute such a conveyance and no such conveyance shall be created until executed and delivered by the Finance Officer or other appropriate official of the City.

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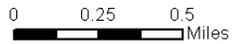
Address: 115 5th ST NE

Parcel: TF-766

Purchaser: DRS Investments, LLC or an affiliated entity

Sq. Footage: 10,890

Zoning: C2



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TOTAL ACQUISITION COSTS INCURRED BY CPED ATTRIBUTABLE TO THE FOLLOWING PROPERTY:

Date: April 16, 2013
 Subject: Land Sale – Public Hearing
 115 Fifth St NE
 Address: 115 Fifth St NE
 Purchaser: DRS Investments, LLC, or an affiliated entity

Disposition Parcel No. Acq Date	Address	Total CPED Costs	Less Sales Price	Write Off
TF-766 N/A Pass thru Sale	115 Fifth St NE	\$90,000 plus costs TBD	(-)\$90,000 plus costs TBD	(+/-)\$0

Re-Use Value Opinion	Less Sales Price	Write-Down
\$90,00 - \$414,000	\$90,000 Plus costs TBD	Up to \$291,857.84

Write-Down

Reason: To facilitate the prompt redevelopment of this property to a viable use acceptable to the neighborhood in which it is located, it is recommended that it be sold for the Hennepin County Assessed Property Value plus administrative fees incurred by the County and the City of Minneapolis at the time of sale. The property has been a vacant and blighted presence in the neighborhood for years. Deterioration to the building and its infrastructure, especially roof deterioration, is a growing concern. The neighborhood looks forward to a well-managed redeveloped building this year.

The Hennepin County Assessed Value is \$90,000; adding Hennepin County costs calculated as of March 20, 2013 is \$111,038.33; adding 10% City of Minneapolis administrative costs calculated as of March 20, 2013 is \$122,142.16. The administrative costs will increase slightly by the time of sale.

An appraisal prepared by Wendy Walker, MAI effective June 24, 2011 valued the property at \$414,000 and was found to be a reasonable and supported fair market value upon review by Luther Frank, Certified General Real Property Appraiser provided February 28, 2012. An appraisal prepared by Richard Dubay SRA/SRPA and Abdur Rahman Kahn effective January 14, 2013 valued the property at \$140,000 and was found to be low upon review by Luther Frank, Certified General Real Property Appraiser provided February 28, 2013.

Developer History with CPED:

The developer has no experience with CPED, however they have chosen Master Properties Minnesota LLC as the general contractor/builder. Master has been involved in many projects in the City of Minneapolis.

Developer Information:

Limited Liability Company of the State of Minnesota

