



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

Date: January 16, 2007

To: Lisa Goodman, Chair Community Development Committee

**Subject: Heritage Park Redevelopment Project – Phases 3 and 4**

**Recommendation: Request authorization to negotiate a term sheet with Thor Development Group for Phases 3 and 4 of Heritage Park Redevelopment Project for 60 days.**

**Previous Directives:**

On March 31, 2006, the City Council authorized staff to negotiate a term sheet with Centex Homes – Minnesota Division for Phases 3 and 4 of Heritage Park for 30 days and authorized staff to accept the Phases 3 and 4 withdrawal letter from Heritage Housing, LLC to allow them to focus on completing Phases 1 and 2 in the Heritage Park Redevelopment Project.

Prepared by: Cherré Palenius, Sr. Project Coordinator

Approved by: Charles T. Lutz, Deputy Director, CPED \_\_\_\_\_

Presenter in Committee: Cherré Palenius, Sr. Project Coordinator

**Financial Impact**

- No financial impact

**Community Impact**

- **Neighborhood Notification:** On November 20, 2006 the Harrison Neighborhood Improvement Association, Heritage Park Neighborhood Association and Northside Residents Redevelopment Council received 45-day notification of a proposal submitted by Thor Development Group to develop Phases 3 and 4 of the Heritage Park Redevelopment Project. The developer presented their proposal at a meeting held on December 12, 2006 at the Heritage Commons Senior High rise. The Harrison neighborhood has scheduled a neighborhood meeting, on January 9, 2007 to consider the developer's proposal.

- **City Goals:** Foster the development and preservation of a mix of quality housing types that is available, affordable, meets current needs and promotes future growth.
- **Sustainability Targets:** Affordable Housing Units: new/positive conversion and rehabilitation.
- **Comprehensive Plan:** Sections 4.09, 4.10 and 4.15: Minneapolis will grow by increasing its supply of housing and will increase the housing that is affordable to low and moderate income households. Minneapolis will carefully identify project sites where housing redevelopment and/or housing revitalization are the appropriate responses to neighborhood conditions and market demand.
- **Zoning Code:** Projects will comply with proper zoning.

### **Background Information:**

In January, 2006 Heritage Housing, LLC (HHLLC) presented a preliminary development proposal to CPED and MPHA for Phases 3 and 4 of Heritage Park, which included Centex Homes as the sole builder. HHLLC subsequently withdrew its proposal, deciding to concentrate their efforts on completing Phases 1 and 2.

Notwithstanding HHLLC's withdrawal of its proposal, Centex Homes requested to negotiate a development agreement with the City, to be the exclusive developer for Phases 3 & 4. After initial meetings with Centex, staff requested authorization to begin negotiations for Phases 3 & 4 with Centex Homes for a period of 30 days in March 2006. If an agreement was reached on business terms, staff would return to the Council seeking authorization to enter into a redevelopment contract with Centex Homes.

Staff from CPED, MPHA, and Centex met bi-weekly for several months in an effort to negotiate a term sheet. Unfortunately, extensive soil correction and geotechnical problems discovered on the site created an unmanageable development financing problem. In August, 2006, staff and the developer agreed that the development gap was too large to move forward. Staff began considering three options: do nothing and wait for the condominium market to improve; prepare a request for proposals seeking developers, recognizing that any developer would face the same site conditions costs as Centex; or launch a financing campaign to reduce the financial gap.

At about the same time, Ramsey Excavating, Inc. (Ramsey) secured several large excavation projects in Minneapolis, including the Eitel Hospital site. To reduce its trucking expenses, Ramsey needed a site to deposit 45,000 cubic yards of clean soil, and the Heritage Park site was an ideal location. In late September, 2006, Thor Construction and Ramsey Excavating, Inc. approached the Minneapolis Public Housing Authority (MPHA) with a new development proposal that reduced the project's geotechnical expenses and

increased the total number of units, thereby significantly reducing the development gap.

No other development team has expressed an interest in developing Phases 3 and 4. Staff does not believe that an RFP process will result in a better, more cost effective proposal.

**Proposed Development:**

Thor Development Group (TDG), which is the partnership of Ramsey Excavating, Inc., and Thor Construction Inc., is proposing to act as the Master Developer to develop approximately 192 townhome units in Phases 3 and 4 of the Heritage Park Redevelopment Project. The developer is proposing a mix of unit types and styles that will be affordable to a mixed-income group of households. Similar to previous Heritage Park development phases, 15% of the townhome units to be developed will be sold to households earning less than 50% area median income, with another 15% to be sold to households earning less than 80% area median income. The remaining units will be market rate.

TDG is proposing to correct the extensive geo-technical soil problems and complete the grading needed at this site for a price of \$2.4 million, which is approximately \$2 million less than the Centex proposal. To ensure this price, TDG needed access to the site by December 1, 2006. MPHA entered into a Right of Entry agreement with Ramsey Excavating, allowing them to deposit clean fill on the Phases 3 and 4 site until a development agreement with TDG could be reached. All soils deposited become the property of the MPHA, although Ramsey may retrieve up to 10,000 cubic yards of soil for its use. In addition, MPHA submitted an application to Hennepin County for Environmental Response Funds (ERF) to address environmental contamination they may encounter.

As the Master Developer, TDG proposes to perform land development, architectural and site coordination functions that result in buildable lots for the townhome builder. The Developer is proposing to acquire all of the property at once, complete the necessary replatting, soil corrections, grading, installation of private utility connections, and site improvements.

TDG has identified a premier family-owned custom home builder: MW Johnson Construction, Inc. a national builder, which is currently building in Phases 1 and 2 in the Heritage Park development. On November 30, 2006, Council Member Samuels, together with MPHA, CPED and City staff toured several MW Johnson constructed townhomes to review their quality. In addition, staff toured the builder's Design Center. This unique complex contains full-scale interior and exterior product samples. MW Johnson provides an interior designer who works exclusively with each buyer,

discussing the various options available, allowing each buyer to customize their home.

For this development, MW Johnson is proposing an eclectic mix of townhome designs and styles: Craftsman, Classic, European Romantic, or other appropriate styles, with a mix of floor plans to meet different household needs. All of the proposed townhomes will have a 2-car garage and depending on the townhome model will contain between 1,200 to 1,700 square feet, with a proposed price range of \$230,000 to \$300,000. MW Johnson Construction, Inc. has agreed to work with Twin Cities Habitat for Humanity (TCHFH) sharing their townhome construction plans with them. TDG is proposing to scatter the proposed TCHFH sites throughout the development in townhome clusters of 4 to 6 units. TDG anticipates seeking alternative financing products and resources to cover the affordability gap for low-to-moderate income purchasers and has begun discussions with the Minneapolis Saint Paul Family Housing Fund.

TDG anticipates working with Summit Academy OIC and Urban League to recruit local residents for apprenticeship and employment opportunities. In addition, TDG will provide direct assistance to construction contractors, laborers, and vendors to ensure proper compliance reporting and documentation.

Staff is requesting authorization to negotiate a term sheet with Thor Development Group (TDG). In addition, staff will begin negotiations with MPHA on a land sale conveyance agreement, similar to the agreement established for previous phases, for the conveyance of property they currently own within Phases 3 and 4. At the conclusion of these negotiations, staff will return to the City Council with either a term sheet or a recommended strategy.