

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

Date: February 15, 2011

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

Subject: 1400 and 1412 East 25th Street (Morgan Arms Apartments) – Project for Pride in Living

Recommendation: Approve forgiveness of existing project debt totaling \$364,783 and authorize staff to execute the necessary documents

Previous Directives: None

Prepared by: Tiffany Glasper, Senior Project Coordinator, Housing, 673-5221
Approved by: Thomas Streitz, Director, Housing Policy & Development _____ Charles T. Lutz, Director, CPED _____
Presenters in Committee: Tiffany Glasper, Senior Project Coordinator, CPED

Financial Impact

- No financial impact
- Action requires an appropriation increase to the Capital Budget _____ or Operating Budget _____
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Action is within the Business Plan
- Action requires a change to the Business Plan
- Other financial impact

Community Impact

Neighborhood Notification – NA

City Goals – A Safe Place to Call Home

Sustainability Targets – The proposed project meets the affordable housing targets.

Comprehensive Plan – 4.9: Minneapolis will grow by increasing its supply of housing; 4.11: Minneapolis will improve the availability of housing options for its residents.

Zoning Code – All projects being recommended either comply or will comply with the zoning code.

Supporting Information

The subject property at 1400 East 25th Street is owned by Morgan Arms LP [Project for Pride in Living (PPL) is the general and controlling partner] and is currently encumbered with

approximately \$364,783 in City debt. This debt consists of three separate deferred loans awarded to PPL in 1985, 1994 and 1996 for the purposes of rehabilitation activities at the property. All of these deferred loans have matured and the property has been deemed inappropriate for further rehabilitation due to cost ineffectiveness. Rehab costs have recently been estimated in excess of \$500,000 and the property recently appraised at \$70,000. PPL approached City staff for assistance to determine a workable solution for this property.

PPL has made efforts to address the building by 1) attempting to include it in their recent Southside and Northside Recap Projects, and 2) attempting to engage the interest of another party to take over the building. Neither of these tactics yielded results. National Equity Fund deemed the above mentioned projects infeasible with the subject property included and other developers have expressed an unwillingness to take over the building.

The building contains four two-bedroom units and has provided affordable housing and services to households at or below 50% MMI, but has been vacant for almost a year due to the level of work needed to make the building safe and habitable. Built in 1889, this property has simply outlived its useful life. It is structurally substandard and the foundation has sunk to the point that most of the doors and windows are no longer plumb and do not close properly, if at all.

City staff explored multiple scenarios to address the problem, including:

- Foreclosure Option
- Deed in Lieu Option
- Redevelopment Option

The first two were ruled out because the City would still be charged with the responsibility of taking ownership of the property, paying property management costs and marketing the property for redevelopment.

Finding a way to redevelop the property is staff's preferred option.

The property at 1412 East 25th Street is immediately adjacent to 1400 and is owned free and clear by PPL. PPL has offered to include this property in the solution, making the subject property a more developable site, with alley access. Staff has engaged The Twin Cities Habitat for Humanity, Inc. to use already secured NSP funding to acquire the subject property from PPL, demolish it and build a new Single Family Housing unit on the site. The proceeds to PPL from the acquisition will be paid by PPL to the City of Minneapolis to reduce the debt. The appraised value for the subject property is \$70,000.

The financing scenario is as follows:

Current City Debt	\$364,783
Less 1400 25 th Proceeds	\$ 69,300
<u>Less 1412 25th Proceeds</u>	<u>\$ 519</u>
Total Remaining City Debt	\$294,964

The recommendation to this body is to forgive the existing debt against the property at 1400 East 25th Street, less the sales proceeds.