

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

Date: May 6, 2008

To: Lisa Goodman, Chair Community Development Committee

Subject: Heritage Park Redevelopment Project – Phases 1 and 2
Fifth Contract Amendment with Heritage Housing, L.L.C.

Recommendation:

Authorize the appropriate City officials to execute a Fifth Amendment to the Heritage Park Redevelopment Contract, Phases 1 and 2 with Heritage Housing, L.L.C. consistent with provisions outlined in this report.

Previous Directives:

On October 5, 2007, the City Council authorized the execution of the Fourth Amendment to the Heritage Park Redevelopment Contract, Phases 1 and 2 with Heritage Housing, LLC. reducing the total number of units to be developed from 180 units to 174 units.

On April 13, 2007, the City Council authorized the sale of Outlots I & J to Heritage Housing, LLC and authorized the Second Amendment to the Land Conveyance Agreement with Minneapolis Public Housing Authority.

On March 30, 2007, the City Council approved the Third Amendment to the Heritage Park Redevelopment Contract with Heritage Housing, LLC increasing the total number of units; extending the completion timeframes; expanding the middle income limit; revised the timing for developer reimbursement of land sale proceeds for soil correction; increased payments to the public improvement cost note; and assigned a new Town Architect for the project.

On May 26, 2006, the City Council approved to provide up to \$500,000 of Residential Finance Mortgage program income to Heritage Housing, LLC to be used as affordability loans for the Heritage Park Redevelopment Project; and authorized amending the 2006 Appropriation Resolution by increasing the Community Planning & Economic Development Agency Fund SRF-Residential Finance Mortgage Fund by \$500,000.

On April 29, 2005, the City Council approved the Second Amendment to the Heritage Park Redevelopment Contract with Heritage Housing, LLC extending the commencement and completion timeframes; amending Section 5.05 Construction Plans and Specifications, and amending Section 11.02 Phases 3 and 4 Improvements.

On May 28, 2004, the City Council approved an amendment to the Heritage Park Redevelopment Contract with Heritage Housing, LLC increasing the total number of for-sale units to be developed in Phases 1 and 2 and provide an option to develop a commercial component.

On December 29, 2003, the City Council approved the terms of an amendment to the Land Conveyance Agreement with Minneapolis Public Housing Authority for the Heritage Park For-Sale Development Project, Phases 1 and 2.

On August 22, 2003, the City Council authorized the appropriate MCDA officials to execute the Land Conveyance Agreement with Minneapolis Public Housing Authority for the Heritage Park For-Sale Development Project, Phases 1 and 2.

On August 8, 2003, the City Council approved the business terms and conditions for the Phases 1 and 2 Heritage Park Development Agreement with Heritage Housing, LLC; increased the appropriation in Fund SDA by \$668,000; and increased the revenue in Fund SDA by \$668,000.

On July 29, 2003, the MCDA Board of Commissioners authorized the sale of property to Heritage Housing, LLC; approved the business terms and conditions; and authorized the execution of a Development Agreement with Heritage Housing, LLC.

On May 2, 2003, the MCDA Board of Commissioners authorized staff to enter into negotiations with Heritage Housing, LLC based on their proposed Scope of Services, returning with a term sheet within 90 days.

Prepared by: Cherré Palenius, Senior Project Coordinator	
Approved by: Charles T. Lutz, Deputy Director, CPED	_____
Approved by: Tom Streitz, Director of Housing Policy & Development	_____
Presenter in Committee: Cherré Palenius, Sr. Project Coordinator	

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
- Request provided to the Finance Department when provided to the Committee Coordinator

Community Impact

Neighborhood Notification: The Near Northside Master Plan, which includes Phases 1 and 2 of Heritage Park, was comprised with extensive community involvement in 2000. In March, 2003, residents from both the Harrison and Near North neighborhoods selected Heritage Housing, LLC as the recommended developer for the ownership housing to be developed in Heritage Park. On April 15, 2003, the Harrison Neighborhood Housing Committee and Board recommended Heritage Housing, LLC to develop the for sale housing in the first two phases of Heritage Park, based on responses from community meetings. On February 17, 2004, the Harrison Neighborhood Housing Committee approved Heritage Housing's request to develop a mixed-use building at Heritage Park.

City Goals: Minneapolis residents will have a better quality of life and access to housing an 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; there will be plentiful green spaces, public gathering areas, celebrated historic architectural features and urban forests in Minneapolis.

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 property zoning.

Living Wage/Business Subsidy Agreement	Yes _____	No <u>X</u>
Job Linkage	Yes _____	No <u>X</u>

Background Information

Heritage Housing, LLC (HLLC), acting as the Master For-Sale Developer, is responsible for the Phase 1 and 2 land development, architectural, and site coordination functions resulting in buildable lots for sale to individual builder/developers. HLLC initially proposed to develop 167 units containing a mix of single family and multifamily residential units comprised of duplex, townhouses, senior cottages, and condominium units, including all landscaping in accordance with construction plans that are pre-approved by CPED. Of the total number of units to be developed, 15% of the units must be sold to purchasers

whose annual incomes are below 60% of the area median income (AMI). HHLLC has been working with Twin Cities Habitat for Humanity (Habitat), as a developer who can construct and market these units through their existing program. An additional 15% of the total number of units to be developed must be sold to purchasers whose annual incomes are below 80% AMI. HHLLC is working with several non-profit developers including Powderhorn Residents Group (PRG), Northside Residents Redevelopment Council (NRRRC), and Greater Metropolitan Housing Corporation (GMHC) along with their market-rate builders to construct and market these units to qualified buyers. HHLLC endeavors to reasonably disperse all of the affordable units throughout the project areas. Subsequently, HHLLC proposed to increase the total number of ownership units and develop a small, approximately 2,000 square foot, commercial space.

Throughout 2004, HHLLC encountered and resolved numerous issues that initially impeded their development progress. Since that time, housing construction has progressed at a slow but steady pace. Based on initial discussions with their builders, HHLLC platted the northwest quadrant of the development, (bounded by Humboldt Avenue North on the west, Fremont Avenue North on the east and 11th Avenue North on the south) for multi-family townhome/condominium units.

In 2006, the market demand for condominiums and townhomes began diminishing as the number of units on the market exceeded the number of buyers seeking to purchase these units, while the single family market continued to remain strong. In March 2007, the City Council agreed to extend the completion deadline for this development to December 31, 2008. Several months later, rising foreclosures caused by sub-prime mortgage lending practices began undermining the for-sale housing market in many North Minneapolis neighborhoods and across the nation. In the fourth quarter of 2007 and early 2008, the real estate market has continued to plummet, with rising foreclosures along with tighter lending requirements. These national events have delayed numerous new construction developments. HHLLC is committed to finishing this development and is actively working with its builders to ensure the completion of this development despite the market conditions. Since January 2008, there have been six buyer closings at Heritage Park with a strong interest for single family homes. In February 2008, HHLLC submitted an application to Minnesota Housing requesting its Community Reinvestment funding to be used as interim construction financing by the Heritage Park builders and for additional buyer affordability funds. Homebuyer interest for townhome and/or condominium units in Heritage Park has rapidly disappeared, yet the demand for single family homes has been maintained in large part because of its desirable location and the efforts of the developer.

To capture the sustained single-family market, HHLLC redesigned the Heritage Park Phase 2 parcels, shifting the development from multi-family units to single family units. This action reduced the density of these parcels and the overall number of units to be built. Prior to receiving approval by the Minneapolis Planning Commission on this replat, additional revisions were requested by the planning staff, reducing the total number of units to be developed in this quadrant. In addition, the developer reduced the number of units to be developed on the triangle parcel from 16 to 12. Unfortunately, the current ownership market is still very challenging. Therefore, many of the Heritage Park Builders are unwilling to commit to a specific build out schedule. MW Johnson has agreed to build a single family model that could be replicated in the northwest quadrant. The builder will use this model to test buyer interest for this community by securing reservation agreements from interested purchasers.

In the interim, several completion deadlines for this development are approaching. Heritage Housing, LLC is requesting the terms of the existing Heritage Park Redevelopment Contract for Phases 1 and 2 be revised and/or extended as follows:

Fifth Amendment Request

1. Decrease the total number of ownership units to be developed from the previously approved 174 units (consisting of 120 single family residential units and 54 multi-family units) to 169 units

(consisting of 115 single family residential units and 54 multi-family units). This action will decrease the overall purchase price of the property by \$20,000¹ for a new total of \$676,000.

	Current Obligation	Revision
Multi-family Units	54	54
Single Family Units	120	115
Total Units	174	169

The initial request for proposals to develop a mixed-income community at Heritage Park indicated that approximately 135 units of for-sale housing was envisioned for the first two phases, with a total of 360 ownership units to be built as part of the Heritage Park Development.

2. Extend the completion timeframes for the development. Completion of all single and multi-family units would be extended from December 31, 2008 to June 1, 2010. The public improvement cost note and the purchase price notes, secured by mortgages against the real estate, would also be extended to June 1, 2010. HHLLC will provide staff with quarterly progress reports and meet with staff as needed to monitor their completion deadlines. On April 17, 2008, Legal Aid was provided an update on the development and HHLLC's request.
3. HHLLC is requesting an extension for the development of the triangle parcel located north of 11th Avenue North and east of Van White Memorial Boulevard (the "Triangle Parcel"). As previously agreed to in the third contract amendment, if HHLLC had not begun construction on the triangle parcel by April, 2008, the City would take back the Triangle Parcel and reduce the total number of units to be built and the Deferred Purchase Price Note accordingly. HHLLC is requesting an extension of that turn-back date to April 2010.

Given the alternative of taking back the 62 parcels and finding another developer, staff believes the better course is to support HHLLC's request. In summary, staff has reviewed the developers request and supports revising the terms of the Heritage Park Redevelopment Contract, as noted above.

¹ 5 x \$4,000