

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

Date: May 18, 2010

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

Subject: Authorization to acquire properties as part of the Northside Home Fund—2501, 2511 and 2530 James Avenue North

Recommendation: Authorize staff to acquire and execute necessary documents for the acquisition of 2511 James Avenue North from Powderhorn Residents Group, Inc. (PRG) for \$2,575.15 and 2501 and 2530 James Avenue North from Northside Housing Services of Minneapolis (NHS) for \$18,273.92 and forgive existing loans of \$22,467.76 to PRG and \$123,938.97 to NHS.

Previous Directives: On December 23, 2004, the Minneapolis City Council approved guidelines associated with the creation of Northside Home Fund (NHF) Cluster concept. On July 11, 2006, the Minneapolis City Council authorized up to \$1 Million of federal CDBG funds for use by approved NHF partners for acquisition and demolition activities consistent with NHF Cluster concept that the city would otherwise incur directly. On April 22, 2008, the Minneapolis City Council approved revised guidelines to non-CPED Acquisition Program of NHF to allow development gap subsidy not to exceed \$25,000 per project in addition to the acquisition and demolition funds.

Department Information:

Prepared by: Edith Johnson, Senior Project Coordinator, Phone 612-673-5262

Approved by: Charles T. Lutz, Deputy CPED Director _____

Thomas A. Streitz, Director of Housing Policy and Development _____

Presenters in Committee: Edith Johnson, Senior Project Coordinator

Financial Impact: None

Community Impact

- Neighborhood Notification: The Jordan Area Community Council has been notified.
- 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: Not Applicable for acquisitions
- Zoning Code: Each zoned R1A

Supporting Information:

The cluster development concept was CPED's design to address blight in geographically focused areas of the north Minneapolis housing market. PRG and NHS, nonprofit developers, were selected through a Request for Proposals (RFP) process to tackle blight

within the 25th and James Avenue cluster area. Cluster areas activities involved acquiring, demolishing and constructing new homes for marketing and sale to owner occupants. The cluster activities also included acquiring and rehabilitating properties for marketing and sale to owner occupants.

Initially, PRG and NHS acquired and cleared the subject properties, with plans to construct new housing units on the vacant parcels. Prior to construction of new housing units, CPED requested that the developers not move forward with construction of three new homes.

Reasons for the decision not to move forward included:

- These properties were in the heart of the areas hardest hit by the housing foreclosure crisis, and it was believed that focusing on the rehabilitation efforts in the cluster was a better strategy;
- Property values were declining and very unstable;
- Construction of new housing units would have required deeper subsidies than allowed by the funding source;
- CPED had constructed three Home Ownership Works (HOW) homes within the PRG cluster area, which enhanced the visuals of the project, but were experiencing marketing challenges to sell resulting in increasing holding costs;
- The Greater Metropolitan Housing Corporation (GMHC) also constructed new homes within six blocks of PRG's cluster area that were being marketed for sale;
- Project for Pride in Living (PPL) had houses for sale and under development within the Lowell Curve Project, which is in close proximity to the cluster area and in the same neighborhood housing market; and
- The above housing construction projects have incurred funding gaps substantially greater than the original program budget costs and have competed for the same buyers seeking newly constructed housing units at that time and within the same housing market.

Lot dimensions are as follows:

2501 James Avenue North 57' x 115' = 6,555 total square feet

2511 James Avenue North 49' x 132' = 6,468 total square feet

2530 James Avenue North 45' x 123' = 5,535 total square feet

PRG

The City of Minneapolis and PRG signed a CDBG funding contract on June 27, 2007, for costs associated with acquisition and demolition of properties in the 25th and James Avenue Cluster.

On October 16, 2007, PRG acquired 2511 James Avenue North for construction of a single family housing unit for owner occupancy. In October 2007, PRG requested and CPED reimbursed PRG \$22,467.76 in acquisition and demolition related costs.

The management staff of CPED informed the developer that the funds required to bridge an ever increasing development gap were not available and they should not move forward with this development. Further, PRG has requested that, in light of CPED's decision not to proceed with construction, it conveys the property to the City of Minneapolis for the holding costs it incurred. As of February 23, 2010, PRG incurred holding costs of \$2, 576.15.

On March 31, 2010, CPED staff appraiser valued the subject property at \$3,300. For acquisition, CPED will pay PRG \$2,576.15 to acquire the property. The \$22,467.76 loan will be forgiven. CPED staff believes that this is appropriate considering had the City of Minneapolis purchased and demolished the property, the City would have incurred similar costs—acquisition, demolition and holding costs during this period.

NHS

The City of Minneapolis and NHS signed a CDBG funding contract on August 1, 2007, for costs associated with acquisition and demolition of properties in the 25th and James Avenue Cluster.

On July 31, 2007, and May 10, 2007, NHS acquired 2501 and 2530 James Avenue North, respectively, for construction of single family housing units for owner-occupancy. On December 29, 2008, NHS requested and CPED reimbursed NHS \$123,938.97 in acquisition and demolition related costs.

As is the case of PRG, NHS has also requested that, in light of CPED's decision not to proceed with the construction, it conveys the properties to the City of Minneapolis for the holding costs it incurred. As of March 2, 2010, NHS incurred holding costs of \$18,273.92.

On March 31, 2010, CPED staff appraiser valued 2501 James Avenue North at \$3,300 and 2530 James Avenue North at \$3,000. For acquisition, CPED will pay NHS \$8,424.08 and \$9,849.84, respectively for acquisition of the properties. CPED staff believes that this is appropriate considering had the City of Minneapolis purchased and demolished the properties, the City would have incurred similar costs—acquisition, demolition and holding costs during this period.

In addition to the above acquisition costs, each property's estimated closing costs are as follows:

Title Fees	\$800.00
Recording Fees	\$ 51.00
2010 Property Taxes	
2501 James Avenue	\$558.86
2511 James Avenue	\$674.52
2530 James Avenue	\$420.22

The three properties are included in the Housing Replacement Scattered Site Tax Increment Financing (TIF) District II. This tool allows the City of Minneapolis to be reimbursed, over a 15 year period, up to 75% of eligible costs, including acquisition, demolition and property management costs.

Staff recommends acquisition of the respective properties from PRG and NHS as outlined in this report and the loans are forgiven. CPED will provide property management and will market the properties for future housing development.