



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

Date: December 11, 2007

To: Lisa Goodman, Chair Community Development Committee

Subject: Heritage Park Redevelopment Project – Phases 1 and 2  
Revisions to the Fourth Contract Amendment with Heritage Housing, L.L.C.

### **Recommendation:**

1. Authorize the appropriate City officials to execute a Fourth 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 approved a fourth amendment to the Heritage Park Redevelopment Contract with Heritage Housing, LLC decreasing the total number of units from 180 to 174.

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 a 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 a 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.

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| Prepared by: Cherré Palenius, Senior Project Coordinator                       |
| Approved by: Charles T. Lutz, Deputy Director, CPED _____                      |
| Presenter in Committee: Kevin Walker, Manager, Multifamily Housing Development |

**Financial Impact**

No financial impact

**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.

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|--|-----------|--------------|
| Living Wage/Business Subsidy Agreement | Yes _____ | No <u>XX</u> |
| Job Linkage                            | Yes _____ | No <u>XX</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) 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 locationally disburse 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 deteriorating the for-sale housing market in many North Minneapolis neighborhoods and across the nation. At the same time, homebuyer interest for townhome and/or condominium units in Heritage Park rapidly disappeared, yet the demand for single family homes has remained strong.

To capture this market dynamic and meet the Redevelopment Contract completion deadline, HHLLC has redesigned the Heritage Park Phase 2 parcels, shifting the development from multi-family units to single family units. This action will reduce the density of these parcels and the overall number of units to be built.

The Heritage Park master plan called for a total of 360 ownership units to be built over four phases. The request for proposals to develop a mixed-income community at Heritage Park suggested approximately 135 units of for-sale housing to be developed in the first two phases. The Developer's initial proposal, accepted by the City in 2003, provided 167 units of for-sale housing.

In subsequent amendments, the developer increased the number of units to be developed. The proposed fourth amendment originally approved by the City Council on October 5, 2007 changed this number to 174 units. Staff is revising that request to 169 units for the two reasons enumerated below.

#### Revised Fourth Amendment Request

In September, HHLLC requested to decrease the total number of ownership units to be developed in Phases 1 and 2, from the approved 180 units, consisting of 73 single family residential units and 107 multi-family units to 174 units, comprised of 120 single family residential units and 54 multi-family units. This action decreased the overall purchase price of the property by \$24,000<sup>1</sup> for a new total of \$696,000. (The purchase price is set at \$4,000 per unit developed.)

1. In November, the Planning Department requested HHLLC revise the Fremont plat submitted changing the location of the curb cuts and reduced the overall number of units on this block by one. In addition, the Builder interested in the triangle parcel (known as parcel 4) decided, based on current market conditions, to change the product type for this parcel from 16 townhome units to 12 single family units on this parcel. These combined actions will reduce the total number of units to be developed to 169 units, comprised of 120 single family residential units and 49 multi-family units.

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<sup>1</sup> 6 x \$4,000

|                     | Current Obligation | Revision |
|---------------------|--------------------|----------|
| Multi-family Units  | 54                 | 49       |
| Single Family Units | 120                | 120      |
| Total Units         | 174                | 169      |

This action will also decrease the overall purchase price of the property by \$20,000<sup>2</sup> for a new total of \$676,000.

2. The triangle parcel located north of 11th Avenue North and east of Van White Memorial Boulevard may not be feasible to develop, due to its configuration, small size, market conditions, and lack of builder interest. The City had previously stipulated a mandatory take-back date of March 30, 2008. If redevelopment of this parcel had not commenced by this date, the developer would be required to return the parcel to the City. With the change in development outcome from multi-family townhomes to single family homes, staff recommends that this section of the redevelopment contract change. Less lead time will be needed for the City to find a replacement developer for single-family construction than for multi-family. To provide the Developer with additional time to develop this parcel, given current market conditions, staff is recommending that the City postpone the mandatory take-back date to October 30, 2008. If redevelopment has not begun by then, the developer shall return this parcel to the City, according to newly established terms in the fourth amendment to the contract. To avoid costly court proceedings to recapture the property, the City will reduce the total number of units to be built by 12, delete this parcel from the HHLLC contract, and reduce the amount of the purchase price note by \$36,000.

Exhibits  
Heritage Park Landscape Map of the NW Quadrant

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<sup>2</sup> 5 x \$4,000