

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

Date: June 24, 2008

To: Lisa Goodman, Community Development Committee Chair

Subject: Authorization to provide additional Affordable Ownership Housing Development Program funding up to the maximum program amount for three previously funded projects; modify the sales requirement as indicated in the report; and waive the City of Minneapolis Unified Housing Policy for the Cedar 28 and 3310 Nicollet projects.

Recommendation:

A. Approve additional Affordable Ownership Housing Development Program funding, up to the amounts indicated below, with a total funding commitment of \$93,885.

1. Up to \$5,000 for construction gap financing to Cedar 28 project located at 2750 Cedar Avenue South by Urban Homeworks, Inc. for one unsold unit. The City of Lakes Community Land Trust (CLCLT) will market and finance the affordable units
2. Up to \$68,885 for construction and affordability gap financing to 3310 Nicollet Condominiums project located at 3310 Nicollet Avenue South by Prima Land, Inc. for four unsold units. The City of Lakes Community Land Trust (CLCLT) will market and finance seven of the nine affordable units and be the Borrower for the AOHP affordability gap funds
3. Up to \$20,000 for construction gap financing to Redeemer Center for Life Housing project located at 1901-15 North 4th Avenue by Project for Pride in Living as a general partner or an affiliate of the Borrower established for the purpose of holding or owning real estate subject to the City loan for two unsold units.

B. Modify the current sales requirement as indicated in the report.

C. Waive the City of Minneapolis Unified Housing Policy for the Cedar 28 and 3310 Nicollet projects.

Previous Directives: During the 2004 budget process, the City Council approved \$1,000,000 for the Workforce Ownership Housing Development Program. On January 20, 2004, the Community Development Committee reviewed the Housing Policy Agenda and directed staff to prepare guidelines and criteria for the Workforce Ownership Housing Development Program. On September 14, 2004, the Community Development Committee approved the guidelines for and implementation of the Workforce Ownership Housing Development Program.

On April 15, 2005, the City Council approved Workforce Ownership Housing Development Program funding commitments of \$1,130,000 to five development projects. The committee also approved combining the Workforce Housing, Perpetual Affordability and Limited Equity Cooperative Funding programs creating one consolidated program, the Affordable Ownership Housing Development Program.

On December 23, 2005, the City Council approved Workforce Ownership Housing Development Program funding commitments of \$1,990,000 to nine development projects.

On April 28, 2006, the City Council approved technical revisions to the Affordable Ownership Housing Development Program Guidelines.

On August 18, 2006, the City Council approved up to \$500,000 of Residential Finance Mortgage program income to the Affordable Ownership Housing Development Program and amended the 2006 General Appropriation Resolution by increasing the Community Planning & Economic Development Agency Fund SRF0-Residential Finance Mortgage Fund (SRF0-890-8952) by \$500,000.

On October 20, 2006, the City Council approved the Affordable Ownership Housing Development Program funding commitments of \$1,301,250 to five development projects.

On October 5, 2007, the City Council approved the Affordable Ownership Housing Development Program funding commitments of \$1,690,000 to five development projects.

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

Financial Impact

- No financial impact – action is consistent with existing program funding requirements.
- 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: On March 22, 2004, CPED sent a 45-day notice to all of the neighborhood groups and interested parties on the Workforce Ownership Housing Development Program for review and comments. On February 14, 2006, CPED sent a 45-day notice to all of the neighborhood groups and interested parties requesting comments on changes to the Affordable Ownership Housing Program. On June 6, 2008, CPED sent a 45-day notice to all of the neighborhood groups and interested parties requesting comments on changes to the Affordable Ownership Housing Program and the Affordable Housing Policy with comments due back on July 23, 2008.

City Goals: 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.

Sustainability Targets: Affordable Housing Units: new/positive conversion and rehabilitation.

Comprehensive Plan: Section 4.9: Minneapolis will grow by increasing its supply of housing. Section 4.10: Minneapolis will increase its housing that is affordable to low and moderate income households. Section 4.11: Minneapolis will improve the availability of housing options for its residents. Section 4.15:

Minneapolis will carefully identify project sites where housing redevelopment or housing revitalization is the appropriate responses to neighborhood conditions and market demand.

Zoning Code: Projects comply.

Living Wage/Business Subsidy Agreement Not applicable

Supporting Information

The Affordable Ownership Housing Development Program (AOHP) was designed to assist for-profit and non-profit developers with rehabilitation and construction of new affordable single-family, duplex or multi-unit housing for owner-occupancy, including limited equity cooperatives. AOHP provides up to half of the total project gap funding. Program funds are used to assist housing developments with long-term or perpetual affordability mechanisms and may be used for both development cost gap and/or buyer affordability gap. AOHP financing is available as a grant for new construction and rehabilitation projects, which need gap financing assistance to either cover the difference between total development costs and the appraised value (construction gap) or as a deferred affordability loan to the buyer based on verification of need (affordability gap) or a combination of both. Developers are required to provide documentation that the project will remain affordable at the same income level for approximately 30 years. In 2004 and 2005, CPED issued a Request for Proposals (RFP) accepting developer applications for the program. At this time, the maximum CPED assistance for units sold to owner-occupant households whose income is at or below 50% of median income was \$40,000 per unit with a maximum of \$20,000 per unit for properties sold to purchasers whose income is at or below 60% of median income. To accomplish the long-term affordability criterion, many of these developers entered into partnership agreements with Twin Cities Habitat for Humanity or the City of Lakes Community Land Trust (CLCLT) to market and finance its AOHP-funded units.

In early 2006, the City Council approved technical revisions to the Affordable Ownership Housing Program Guidelines, increasing the per unit maximum assistance amounts. During this same time, 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. Several months later, rising foreclosures caused by “exotic” mortgage lending products began undermining the for-sale housing market in many Minneapolis neighborhoods and across the nation. In August 2007, Minnesota’s Anti-Predatory Lending Legislation went into effect eliminating numerous creative and unusual mortgage lending practices and products that were previously available to lower-income households. With even tighter mortgage lending requirements for purchasers and an ever-rising inventory of foreclosures, low-income buyers who were previously pre-approved for a \$100,000 mortgage loan began experiencing difficulty obtaining a mortgage approval for half this amount. In the fourth quarter of 2007 and early 2008, the real estate market continued to plummet. These national and local events—foreclosures and tighter underwriting—have negatively affected numerous newly constructed for-sale developments.

In January, 2008, after two years of marketing, the City of Lakes Community Land Trust (CLCLT) requested a waiver for one AOHP-funded unit at the Cedar 28 development. CLCLT staff indicated they were experiencing great difficulty locating buyers, earning less than 50% of median income who could qualify for a mortgage loan, to purchase a land trust condominium unit. After additional review, staff discovered three AOHP-funded projects, which were substantially completed in 2006, were all struggling to locate mortgage-qualified buyers in accordance with the AOHP income restrictions.

Presently, seven AOHP-funded developments have closed on its project financing. Of these, one multifamily project is fully completed—Marshall Stacy Habitat townhomes. Construction is

substantially completed on the following three multifamily projects: Cedar 28, 3310 Nicollet, Midtown Exchange and a single-family twin homes project: Redeemer Center for Life. One multifamily project—Van Cleve Habitat townhomes started construction this spring, while one project—Pokegama has not started construction. The current status of projects with AOHP commitments are noted on Exhibit A.

To remain competitive in the existing real estate market all of these developers have reduced the sale prices of the AOHP-assisted units. Unfortunately, they are still experiencing difficulty locating mortgage-qualified buyers. To prevent these newly constructed AOHP-assisted developments falling prey to foreclosure and/or forcing these developers to rent vacant units, staff is requesting additional AOHP funds be provided, up to the previously increased maximum per unit amount available. 3310 Nicollet will use a portion of these additional funds—approximately \$60,000 as development gap financing to cover the fair market value reductions for the four unsold AOHP units. The remaining amount of AOHP funds will be provided as buyer affordability gap financing.

Staff is also requesting the present AOHP income restrictions for these projects be modified, allowing the AOHP units for the Cedar 28 and 3310 Nicollet projects to be sold to households earning at or less than 60% median income. For these multifamily projects, modifying the income limits will require the projects receive a waiver of the City of Minneapolis Unified Housing Policy. For the Redeemer Center for Life project, staff is requesting the current AOHP income restriction be increased allowing the developer to sell these two units to households earning at or less than 80% median income.

On June 6, 2008, a public notice was sent seeking community comments on proposed changes to the current AOHP program, which requires a complementary change to the City of Minneapolis Unified Housing Policy, increasing the household income limits for CPED assisted for-sale properties. Once the 45-day neighborhood review timeline has expired, staff anticipates bringing forth a Council report seeking authorization to make changes to the Unified Housing Policy and initiate retroactive program revisions to the AOHP program.

Attachments

- Exhibit A – AOHP projects
- Cedar 28 - project data worksheet
- 3310 Nicollet - project data worksheet