

Economic Development / HRA

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Housing and Redevelopment Authority
Established 1974

Date: August 15, 2017

To: Chair and Commissioners of the Edina Housing and Redevelopment Authority

cc: Scott Neal, Executive Director

Bill Neuendorf
From: Economic Development Manager

Re: Implementing Affordable Housing – Estelle Edina

Co-developers Ryan Companies and Luigi Bernardi are considering a large investment in Edina's Greater Southdale District. They continue to explore options regarding several parcels they own at Valley View Road and France Avenue.

In June 2017, the developer proposed a mixed-use redevelopment consisting of two high rise condominiums with commercial and retail space on the first floor. Conceptual renderings are attached.

Based on comments and concerns expressed by the Planning Commission and City Council, the developers are exploring ways to include additional community benefits with the project, including affordably-priced housing units in type and quantities greater than required by the City's housing policy. The developer intends to price 14% of the condominium units at affordable rates, delivering 24 affordably-priced units in two separate phases as the proposed buildings are constructed.

Alternatively, the developer has inquired whether the Edina Housing and Redevelopment Authority (HRA) would be interested in working together to deliver more affordably-priced units in a shorter time frame. These new units would be constructed on a separate site to be determined.

Part of the Edina HRA's mission is to create affordably-priced housing units in the Edina. Establishing a financial partnership with the developers could be a way to leverage HRA monies with private investment to create new long-term affordable housing.

Before City staff begins working with the developers in any significant capacity, it is desired to review and discuss the options available to promote tax base growth and creation of new affordably-priced housing units in Edina.

Summary of Potential Financial Partnership – The Edina HRA could play an active role in compelling the construction of a significant number of new affordable housing units as a financial partner related to the Estelle Edina project. One potential arrangement could include the following elements. Please note that this is only one potential path based on the various options attached to this memo.

- 40 to 50 affordably-priced units (17-34 required by policy)
- 3-4 story stand-alone building
- Condominiums instead of rental apartments
- Deed restriction to ensure long-term affordability
- Creation of new Housing TIF District
- Use \$3-5 million of existing Southdale TIF monies to fund land acquisition and construction
- Work with local lenders to secure reasonable terms for construction financing

Questions for HRA Discussion

- 1) Is the HRA interested in providing financial support of any type to the Estelle Edina project?
- 2) Is there interest in establishing a new 26-year Redevelopment TIF District to provide financial support for the affordable housing units?
- 3) Is there interest in using the 2017 Special Legislation and establishing a shorter term TIF District?
- 4) Is there a preference for ownership units (condominiums) rather than rental apartments?
- 5) Does the HRA have interest in the “land trust” model whereby the property acquired would remain as a public asset with the residential owners or tenants having a long-term lease?
- 6) Does the HRA have interest in being responsible for long term maintenance and management responsibilities or should those be outsourced to the private sector?

Additional background information and the conceptual site plan is attached for reference.

Background

Options for Developer to Consider - the City's affordable housing policy includes three possible options for a new residential redevelopment of this scale

Description	Detailed Description & Outcomes	Feasibility
1) Provide 10% or 20% affordable units into each phase of the new condominium buildings	Assume 14% of the 172 units to be affordably-priced; this would be accomplished by including more smaller units in the same building footprint	The cost to deliver affordable units in the luxury building is very expensive. The developer is interested in this option so that units can be delivered on a predictable schedule.
2) Provide contribution to Affordable Housing Fund in lieu of including units	Assuming \$100k per unit, contribution could be approx. \$3.2 million; the actual contribution is subject to negotiation	This option has potential, but it is preferable that new units be delivered rather than enhancing the existing fund balance.
3) Provide affordably-priced units in separate project	40 to 50 units in a 3 or 4 story building	This option also has strong potential and staff recommends it be explored in more detail.

The creation of a separate building might be the most cost-effective route to deliver affordably-priced units that are primarily financed by the private sector. There are several challenges to delivering affordably-priced units – from land acquisition to construction costs. The City may consider entering into a public-private partnership to deliver an acceptable project.

Challenge	Possible Solutions	Recommendation
#1 <u>Land Acquisition Cost</u> – the cost of land in the Greater Southdale Area ranges from \$2 to \$6 million for a parcel of adequate size	1a -The City could participate by creating a new TIF District. 1b – The City could participate by pooling funds from the Southdale 2 TIF District using 2017 Special Legislation.	Both options have merit although use of the 2017 Special Legislation could be preferable due to its limited duration (expires Dec 2019).
#2 <u>Construction Costs</u> – costs to construct new housing exceeds the income generated by sale or lease at affordable rates	2a – same as 1a above 2b – same as 1b above	Both options have merit although use of the 2017 Special Legislation could be preferable due to its limited duration (expires Dec 2019).
#3 <u>Construction Financing</u> – market rate lenders require significant profitability to secure a mortgage; this drives up the cost of affordable housing	3a – In most projects, the developer secures the construction financing as well as the permanent financing.	3a is the traditional route, but large institutional lenders may not be the best fit for the affordable housing project.

Challenge	Possible Solutions	Recommendation
	<p>3b - The City could issue debt to provide short term financing for the project.</p> <p>3c - A local lending institution could be pursued to see if they would waive the standard profitability requirements.</p> <p>3d - Short-term financing could be pursued through State, County or Met Council resources.</p>	<p>3b involves risk that the City has not previously taken on. It is unusual for Cities to take on this risk, unless it is in conjunction with publicly-owned housing.</p> <p>3c and 3d have merit.</p> <p>Alternatively, the developer could retain responsibility for taking on the risk of construction financing before condominium units are sold or permanent financing is put in place.</p>
<p>#4 <u>Owner-occupied or Rental</u> – apartments provide residents with stabilized rent with less risk while condominiums provide owners with some risk but the potential for income creation as the asset appreciates</p>	<p>4a – The private market has constructed many apartments in recent years.</p> <p>4b – Ownership opportunities for first-time buyers or people on limited income are not as abundant.</p>	<p>Recommend that affordably-priced condominiums be pursued to create new options in the market place.</p>
<p>#5 <u>Long Term Ownership</u> – If apartments are constructed, who will be the long-term owner?</p>	<p>5a – The City could initiate a Public Housing Agency and own the building and site.</p> <p>5b – A Developer could own the building and site.</p> <p>5c – A land trust could be established so that the land is owned by the public and the building is owned by a developer or investor.</p>	<p>5a – Edina does not have a Public Housing Agency and has not taken on the task of owning and operating housing.</p> <p>5b – This has merit.</p> <p>5c – The land trust model has merit and might be the best way to invest public monies into affordable housing. The City, for example, could own the land and lease it to the developer for 50+ years. At the end of the lease, the land is still in public ownership and could be available to serve whatever purpose is appropriate at that time.</p>
<p>#6 <u>Long Term Management</u> – If apartments are constructed, long-term management and maintenance responsibilities will need to be clarified</p>	<p>6a – It is traditional for the developer to hire a management company for leasing and other day-to-day matters.</p> <p>6b – If the City has an ownership interest in the apartment building, it will need to take on or outsource day-to-day management and will also need to budget for long-term maintenance.</p>	<p>6a has merit, especially considering that the City has no experience or expertise in long term ownership of residential buildings.</p>

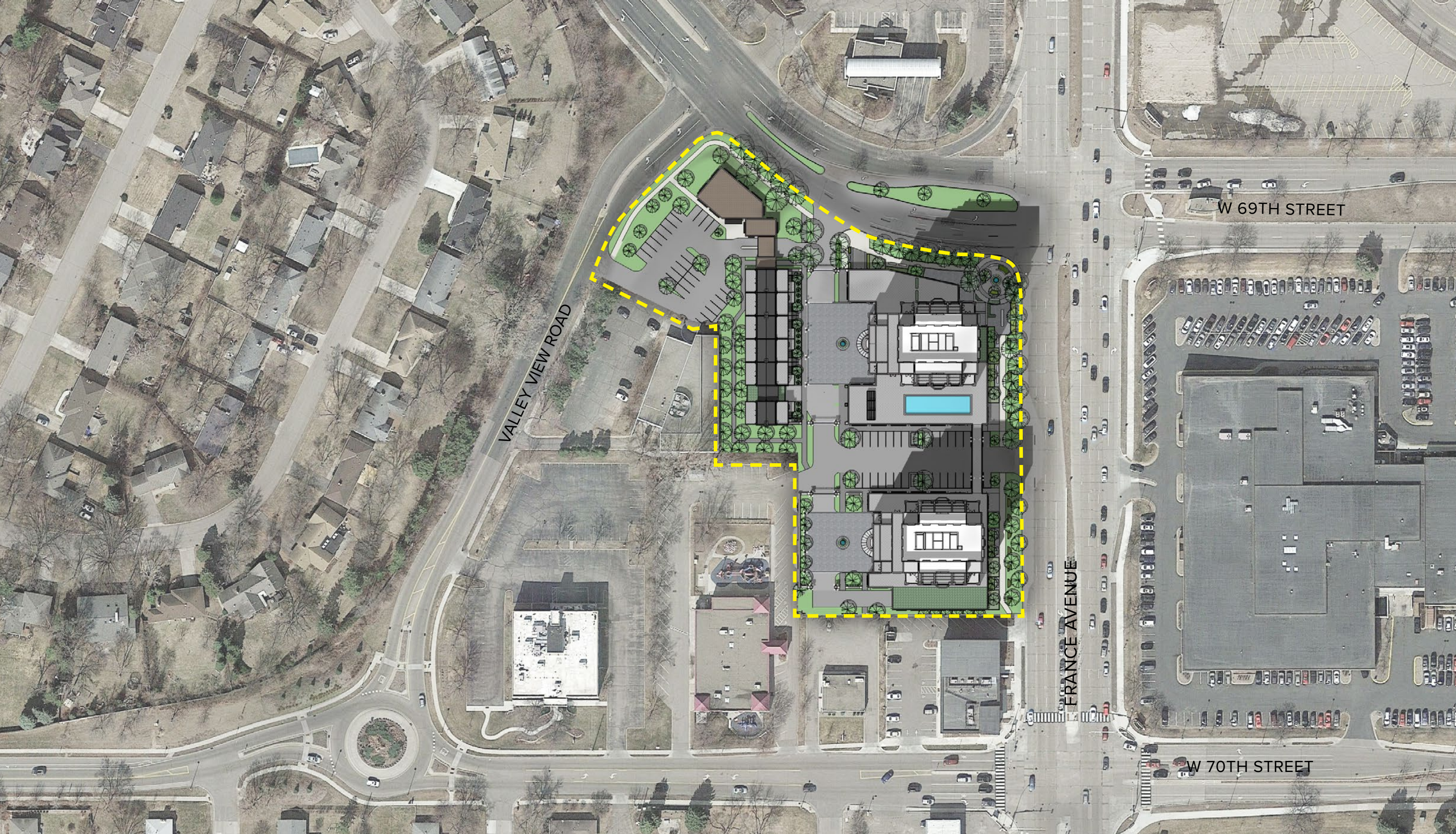


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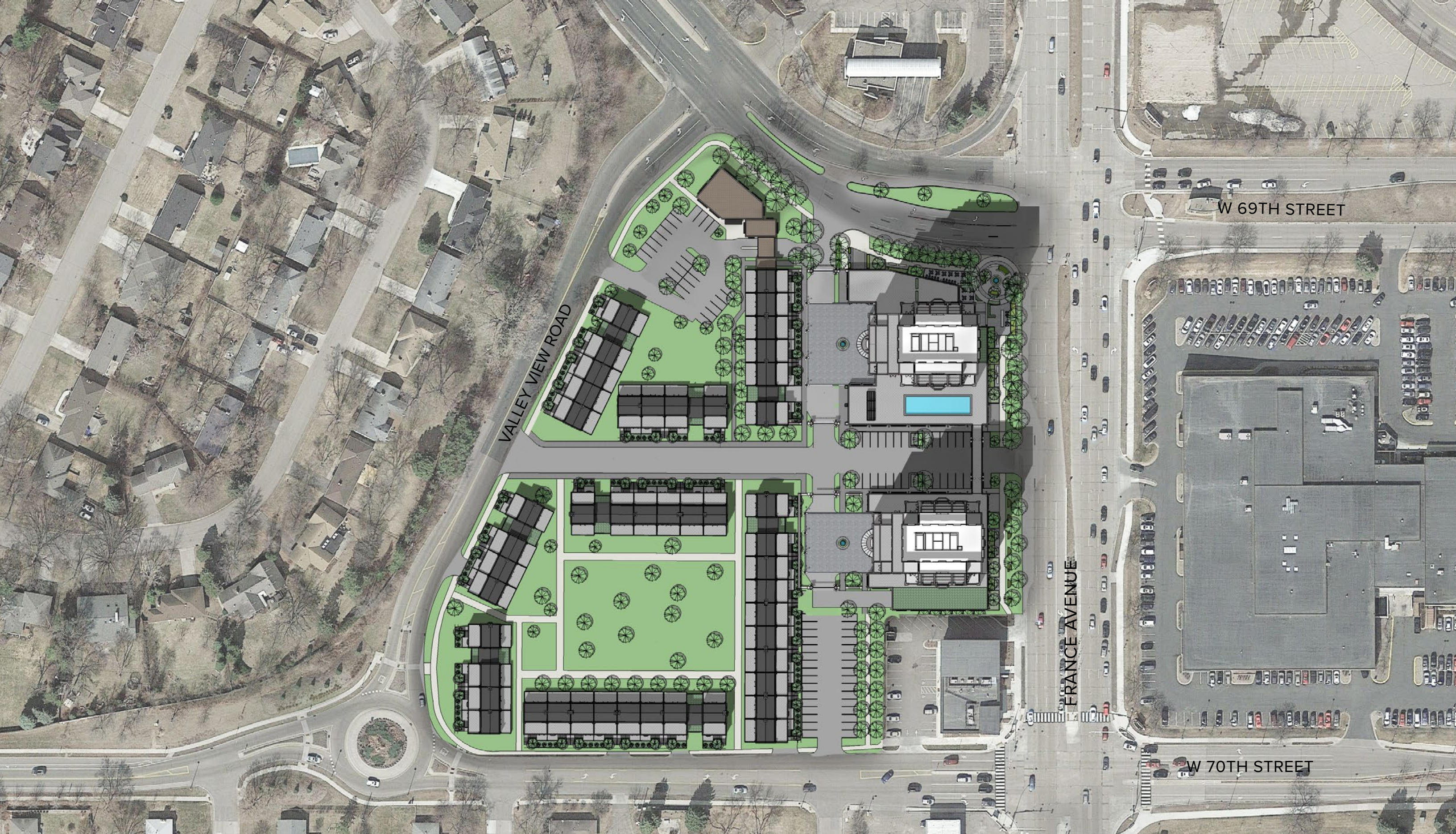
Estelle Edina

City Council Sketch Plan Review Presentation
6.6.2017



Estelle Edina

Overall Site Plan



Estelle Edina

Long Term Build-Out Potential











Estelle Edina

Overall Project View