

216 BATES, 716 WILSON,
208 BATES



208 Bates

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716 Wilson

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216 Bates





South elevation of 208, 216 Bates

Background

- History of nuisance complaints and neglect
- Properties condemned and/or registered vacant for 2-4 years before HRA acquired
- HRA acquired to ensure public control of redevelopment

	208 Bates	216 Bates	716 Wilson
Previous owner bought in	1977	1974	2004
Condemned/vacant	2001	2005	2005
HRA Bought	2005	2007	2007

Rehab Concept



716 Wilson South elevation

- DBNHS was engaged in 2010; the original proposal was demo and new construction.
- HRA staff and the city councilmember requested rehab as the preferred alternative.
- A concept to develop 5 units of housing with 4 Bedrooms was approved by the HPC in August 2012 and competitively bid in December 2012.
- 4 bids were received – the highest was \$1,992,300, the lowest is analyzed below

Costs	208 Bates	216 Bates	716 Wilson	Site Work	Total
Hard Costs	\$622,230	\$539,237	\$263,360	\$216,711	\$1,641,541
Finished Square Feet	3,651	4,090	1,807		
Cost per square foot for construction*	\$170	\$132	\$145		

*New construction hard costs are typically ~\$125-150/sq ft

Why is rehab cost high?

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- **Water damage:** 216 and 208 Bates have compromised roof
- **Site topography:** 216 Bates and 716 Wilson require extensive regrading
- **Storm sewer requirements:** to address water seepage issues
- **Foundation condition:** 208 Bates and 716 Wilson require a completely new foundation
- **Environmental remediation:** Lead, asbestos, mold, and radon at the properties
- **Structural integrity:** Most interior structural framing is compromised at 208 and 216 Bates



208 Bates East elevation



216 Bates water damage



216 Bates basement

Total costs for original concept: 5 rental units

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	Original proposal
Acquisition	\$1.00
Land Sale Write Down	\$585,000
Hard Costs	\$1,641,540
Contingency (15%)	\$246,230
Architect/Design	\$78,500
Other Soft Costs	\$71,250
Developer Fee	\$1,63,960
Total Development Cost	\$2,786,481
Cost per unit (5 units)	\$557,296



216 Bates: current heat pictured to left

208 Bates: interior condition pictured below



DBNHS was requesting HRA financing for the full TDC. HRA staff decided to explore additional options to try to bring the needed HRA investment down.

Additional options explored

Options Explored	Result
Historic Tax Credit Financing	HRA staff discussed the project with the SHPO office and staff that certified Euclid Flats. The small size of the projects does not justify the additional time and expense of certification, and it is doubtful the projects would qualify for the national register.
Minnesota Housing Finance Agency Financing	The project is too small to be competitive and the timing of the application cycle does not meet redevelopment requirements.
Owner occupied instead of rental units	716 Wilson could be sold instead of rented. It would not be reasonable to condo 208 Bates and 216 Bates because of the limited units and lack of market demand.
Reducing square footage developed	716 Wilson could be reduced to a 2 Bedroom instead of a 4 Bedroom, which results in an additional \$30,000 savings. Reducing the size of 208 Bates or 216 Bates also reduces the rental income generated, resulting in a negative rental cashflow.
Demolition of 208 Bates: total demo or retaining façade	Demolition costs \$60,000 instead of the estimated \$622,231 to save the property. Retaining the façade adds cost and is also of concern to DBNHS for safety/liability reasons. In both scenarios proposed the HRA intends to demolish 208 Bates.

Economic Development Option

- 716 Wilson and 208 Bates were originally constructed as housing units; therefore an economic development option is not recommended
- 216 Bates was historically a commercial building
- Staff analyzed subsidy need based on current market trends for small commercial buildings and known rehab needs
- It is estimated \$700,000 of subsidy would be needed for a commercial concept (current concept is for \$1,140,000 at 216 Bates)
- There is high risk that zoning approvals necessary for a commercial project would not be approved
- There is high risk that a suitable tenant would be challenging to find
- If the entire building was used as a commercial building as it has historically been used, the \$700,000 subsidy would result in one unit

Revised costs

	Scenario A) Original proposal: 5 unit rental all 4 BD units	Scenario B) Revised proposal: Demo 208 2 units 4 BD rental 1 unit 4 BD owner	Scenario C) HRA Revisions: Demo 208 2 units 4 BD rental 1 unit 2 BD owner
Acquisition	\$1.00	\$1.00	\$260,000
Land Sale Write Down	\$585,000	\$585,000	\$325,000
Hard Costs	\$1,641,540	\$1,005,378	\$975,378
Contingency	\$246,230	\$150,806	\$91,537
Architect/Design	\$78,500	\$104,000	\$54,992
Other Soft Costs	\$71,250	\$49,200	\$49,200
Developer Fee	\$163,960	\$96,470	\$110,243
Total Development Cost	\$2,786,481	\$1,990,855	\$1,866,350
HRA Cost*	\$2,786,481	\$1,880,855	\$1,716,350
HRA Cost per Unit	\$557,296	\$626,951	\$572,116

*HRA cost is lower for the two revised proposals because of sale proceeds for 716 Wilson.

Timeline Considerations

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- 216 Bates and 716 Wilson were each funded with CDBG.
- There is a requirement that the properties meet a national objective by the end of summer 2014.
- A national objective could be met by either:
 - Rehabilitating the properties for housing that serves households at 80% of area median income
 - Declaring the properties as slum/blight and demolishing them

New construction option

- DBNHS proposal for new construction is 8 units across the three project sites.
- 4 units would be 3 bedroom and 4 units would be 4 bedroom.
- Demolishing the existing buildings and doing a denser development allows the expenses for acquisition and site conditions to be spread across more units of housing.

New construction costs

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	New Construction Cost	HRA Revisions: (From Slide 10) Demo 208 2 units 4 BD rental 1 unit 2 BD owner
Acquisition/Land Write Down	\$585,000	\$585,000
Hard Costs	\$1,760,000	\$975,378
Contingency	\$88,000	\$91,537
Architect/Design	\$105,600	\$54,992
Other Soft Costs	\$100,000	\$49,200
Developer Fee	\$205,360	\$110,243
Total Development Cost	\$2,843,960	\$1,866,350
HRA Cost	\$1,716,350	\$1,716,350
HRA Cost/unit	\$214,543	\$572,116

New Construction

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- Demolishing 208 Bates, 716 Wilson, and 216 Bates provides an opportunity to leverage outside funds.
 - Minnesota Housing Finance Agency: an 8 unit project can generate more leverage from this agency
 - More units could also result in the ability to leverage private financing
 - Demolition meets the timeline requirements for CDBG, allowing opportunity for multiple funding application rounds if needed

Public Purpose Analysis

Public Purpose	New Construction	Rehab option
HRA investment	\$1,716,350	\$1,716,350
Affordable Housing created	High: 8 units	Moderate: 3 units retained
Leverage Investment	High: \$1,000,000 leverage from public/private sources	Low: No leverage
Increase tax base	High: 8 units of new housing likely significant tax base increase	Low: Tax base of three rehabbbed units diminished by 208 Bates demolition
Historic Preservation	Low: Homes demolished	Moderate: Two addresses rehabbbed, one demolished
Reduction of slum/blight	High: Slum blight demolished	High: Slum/blight demolished and rehabbbed

Which option is most reasonable?

Rehab Option:

Rehab 216 Bates and 716 Wilson and demolish 208 Bates

- The HRA has identified \$1.7 million to offer to the project
- Result is 3 units of housing and yard space for Homes for Learning, 716 Wilson and 216 Bates are preserved as historic resources

New Construction Option:

Demolish all three buildings and construct 8 units of new housing

- Increased density is likely to result in an ability to leverage sources from MHFA and private bank financing
- Blight would be immediately removed, providing time to leverage the remaining sources needed

HOUSING AND REDEVELOPMENT AUTHORITY OF THE CITY OF SAINT PAUL, MINNESOTA

REPORT TO THE COMMISSIONERS

DATE September 28, 2005

REGARDING Authorization to Acquire Property at 208 Bates Avenue; Schedule a Public Hearing and Proceed with Acquisition Through Negotiated Sale and/or Eminent Domain under the Redevelopment Plan for Lower Bluff Area, Dayton's Bluff District 4

PURPOSE

The purpose of this report is to request the HRA Board of Commissioners consider acquisition of 208 Bates Avenue either through negotiated sale and/or eminent domain. The property consists of a vacant multi-family building (6 units). The Certificate of Occupancy was revoked and the building has been boarded and vacant since April 16, 2002.

The owner of this property has not completed the conditions to get this building up to code and comply with the Historic Preservation building guidelines. The building has been tagged numerous times under code enforcement with no satisfaction. The owner has gone to court and been denied on the tags but still does not proceed to finish the required actions. The property continues to be a detriment to the neighborhood and in the same instance a hazard to the newly constructed Homes for Learning project next door related to improper drainage and open window wells.

This building is adjacent to Homes for Learning, Inc. project undertaken with City assistance to provide affordable housing and completed under the Housing 5000 Initiative in 2003. The overall development investment was \$4,157,404 of which HRA/City provided \$945,000 in direct assistance in the form of a loan and grant. The idea for the Homes for Learning, Inc. project was to provide 16 new units of affordable rental housing for families to assist in stabilizing the mobility issue at the Dayton's Bluff Elementary School. The school is only one block from this location and the site could offer additional housing opportunities for families. There are also 9 other vacant buildings within three blocks of this property and all within two blocks of the elementary school. As of June 30, 2005, Ward 7 had the highest number of vacant buildings with 112.

MAJOR BOARD ACTION

1. Authorization to proceed with the acquisition of Parcel 208 Bates Avenue either through negotiation and/or eminent domain in accordance with the Redevelopment Plan for the Lower Bluff Area previously approved by the Planning Commission and City Council.
2. Authorization to schedule a public hearing for October 13, 2005, as required under eminent domain if a negotiated sale is not possible.
3. Authorization to approve a budget amendment designating funds for the acquisition.

STATUS

The property at 208 Bates Avenue was noted as vacant and boarded as of April 16, 2002. Since that time

there has been over 50 inspections through June, 2005 checking the building to insure proper boarding and maintainance. In addition to the vacant building inspections there has been a number of complaints concerning the building which required additional inspections. Some permits have been taken out by the owner of which some expired due to no activity in a year. The property is located in Dayton's Bluff Historic District and some work has been done without proper approval and the required Heritage Preservation Commission (HPC) documents have not been submitted for more than a year.

According to the Saint Paul City Council Research Report this is what is called "a chronic problem property is a property with which neighbors, neighborhoods and/or the City have struggled over a long period of time, because of property maintenance code violations and possibly criminal activity". Dayton's Bluff NHS and others have approached the owner about purchasing the property with no success.

PROPERTY REUSE EVALUATION

Scenario 1 (HPC approves demolition)

Proceed with acquisition of the property under condemnation as a blighting influence, demolish and build a new two unit building for resale ownership. This is a six unit building that the County has placed a market value of \$100,000 for 2005 and \$105,000 for 2006. There is no off-street parking available for the building and will also require approval from the Heritage Preservation Committee to demolish and build new. Recently we were informed that LIEP had issued an interior building permit, even though the owner has not received HPC approval for the exterior and would need to be done prior to any type of completion. To date and over the last five years the owner has not shown any indication that he will follow any process. Have talked with Dayton's Bluff Neighborhood Housing Services and they would be interested in building, and would use the designs already approved by the HPC.

Acquisition cost (estimate)	\$ 300,000
Demolition/holding cost	<u>50,000</u>
	<u>\$ 350,000</u>
Total Construction costs (2-3br units)	450,000
Total Development costs	<u>\$ 800,000</u>
Sales Price	<u>425,000</u>
Gap Assistance	\$ 375,000

Note: Gap Assistance reflects redevelopment costs (acquisition/demolition) to get to vacant land.

The additional gap reflects the building costs related to meeting the historic district guidelines and a value gap of cost versus resale because there is still need for improving this area.

Scenario 2 (HPC denies demolition)

Proceed with acquisition of the property under condemnation as a blighting influence and rehabilitate the building. This option would be considered if the Heritage Preservation Commission will not allow demolition of the existing structure. By having to use the existing structure we may be unable to maximize the potential of the site to increase the sales price as if we were doing new construction and incorporating off-street parking. It is highly likely that the building has structural issues that need to be addressed along with incorporating the HPC requirements into an existing building.

Acquisition cost	\$ 300,000
Lead/Asbestos removal/holding costs	50,000

Total Construction costs (2-3br units)	<u>500,000</u>
Total Development costs	<u>\$ 875,000</u>
Sales Price	<u>360,000</u>
Gap Assistance	\$ 515,000

Note: Gap Assistance reflects costs related to acquisition and holding costs for the property prior to development. The additional gap reflects the costs related to addressing demolition needs to ready the building for rehabilitation, such as asbestos, lead removal, etc. which needs to be addressed differently then if the building could be demolished. Meeting the historic district guidelines. The value gap of cost versus resale is higher because the site will be used minimally with the existing old building and can not address some of the amenity issues like parking which can be addressed in new construction and because there is still need for improving this area.

In looking at the scenarios, Dayton's Bluff NHS and PED staff looked at the potential of incorporating this building whether new or rehabbed into the Homes of Learning project, the assistance would only be larger because of the low rents locked into that project. Even looking at Habitat undertaking the rehabilitation or new construction, which is possible, the gap will still be the acquisition costs plus.

PED staff and the neighborhood will evaluate potential developers for the site in an effort to minimize additional gap assistance and move development forward as quickly as possible. The above costs preliminarily identify that additional funds will be needed for the redevelopment which is above the acquisition cost. Recommendations for a developer and costs for redevelopment will be brought back to the HRA Board for final approval.

BUDGET ACTION

A budget amendment for up to \$350,000 to be used toward acquisition to come from the **Comprehensive Housing Real Estate Project, Mixed Income Housing, HRA Loan Enterprise Fund** and is shown on Exhibit A to the Resolution.

NEIGHBORHOOD REVIEW

The District 4 Planning Council considered this request at their meeting of September 12, 2005, and recommended moving forward with the acquisition of this vacant and deteriorated building. PED staff will continue to work the District 4 in the final development of the property.

PUBLIC PURPOSE

In accordance with the City Wide Comprehensive Plan adopted by City Council on March 3, 1999, which included a Housing Plan that identified a number of strategies to consider when identifying properties for acquisition/redevelopment.

Strategy 1: Take care of what have! Maintaining and/or replacing what is here now may be the most important thing the City and its partners can do to encourage new investment in existing housing and production of new units.

- a) enhance economic impact on the community
- b) address issues that destabilize the neighborhood and its residents
- c) stimulate private investment and reinvestment
- d) protect and build on City's major investment in the area

- e) strategically focus efforts to stem deterioration.
- f) reduce crime and negative influences in the neighborhood

RECOMMENDATION

The Executive Director and staff recommend approval of the acquisition of 208 Bates Avenue in an effort to address a blighting and deteriorated building and continue to carry forward the efforts under the Redevelopment Plan for the Lower Bluff Redevelopment Area approved by the City Council.

Sponsored by: Commissioner Lantry

Sheri Pemberton-Hoiby 266-6615
Northeast Team

Attachments: Resolution
 Picture and Location Map
 Vacant building location map for Ward 7