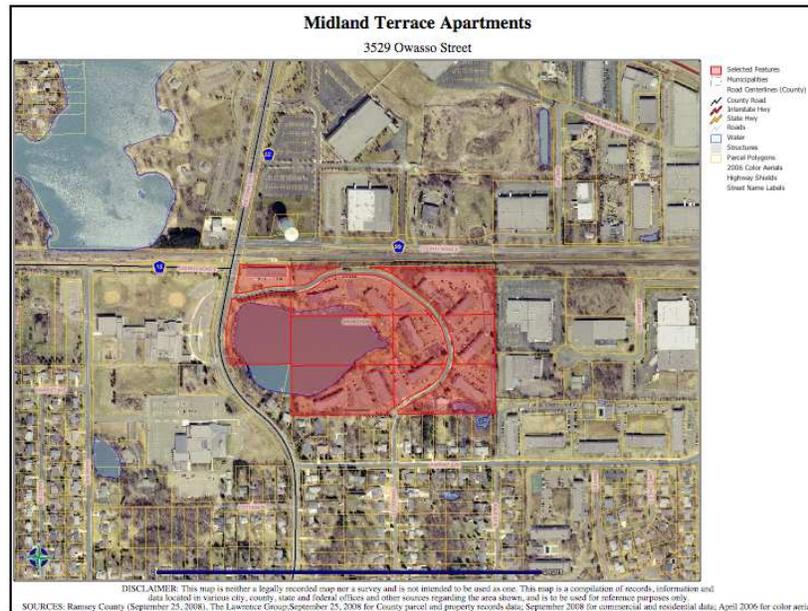


ULI Minnesota



Technical Assistance Panel Report

Midland Terrace Site Shoreview, Minnesota

May 11, 2009

ULI Minnesota and the Regional Council of Mayors

ULI Minnesota is a District Council of the Urban Land Institute (ULI), a 501(c)(3) nonprofit research and education organization supported by its members and sponsors. Founded in 1936, ULI now has more than 37,000 members worldwide representing the full spectrum of land use and real estate development disciplines, including developers, builders, investors, architects, public officials, planners, real estate brokers, attorneys, engineers, financiers, academics and students.

As the preeminent, multidisciplinary real estate forum, ULI facilitates the open exchange of ideas, information and experience among local, national and international industry leaders and policy makers dedicated to creating better places.

Supported by ULI Minnesota, the nationally recognized Regional Council of Mayors (RCM) was formed in 2005 and represents Minneapolis, Saint Paul and 36 municipalities in the developed and developing suburbs. This collaborative partnership provides a nonpartisan platform that engages mayors in candid dialogue and peer-to-peer support with a commitment towards building awareness and action focused on housing, sustainability, transportation and job growth.

ULI Minnesota/RCM Housing Initiative

The Housing Initiative of the ULI Minnesota/Regional Council of Mayors, made possible by financial support from the Family Housing Fund, is an innovative effort to help cities increase housing production and preservation in ways that make sense today and for the future of each community and the region as a whole. Its mission is to bring together key professionals and decision-makers involved in all aspects of housing production to implement tools and strategies that support a full range of housing choices. This includes a diverse mix of housing types, sizes and prices within the region, within cities and within neighborhoods, in connected livable communities.

Five cities—Rosemount, Shoreview, Brooklyn Park, Minnetonka and Richfield—were selected as participants in the Opportunity City pilot program, an essential part of the Housing Initiative. The five cities received a housing audit that reviewed and evaluated the effectiveness of existing housing and land use tools and strategies to meet the city's current goals, identified gaps and recommended modifications and additions. In addition, several cities received opportunity site evaluation by teams of ULI Minnesota professionals. The site evaluation process was determined by the City to meet their specific needs or housing issue. The City of Shoreview selected the ULI Minnesota Technical Assistance Panel process for the Midland Terrance Apartments.

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Technical Assistance Panel

The City of Shoreview chose to engage in the ULI Minnesota Technical Assistance Panel (TAP) to help evaluate land use options for Midland Terrace. The TAP assembles an interdisciplinary panel of experts in the real estate, planning and development fields to explore the project, its potential for renovation and/or redevelopment and provide local policy leaders with recommendations and site considerations to help the project move forward. The panel will approach the assignment from all perspectives, including market potential, land use and design, financing and development strategies, and implementation. Panel members are ULI members and experts who volunteer their time because of a commitment to the principles of redevelopment, planned growth, economic expansion, and local and regional capacity-building.

TAP Team

- Facilitator/consultant: Cathy Bennett, Bennett Community Consulting
- For-profit housing developer: Colleen Carey, The Cornerstone Group
- Non-profit housing developer: Gina Ciganik, Aeon Company
- Architect: John Hamilton, Urban Works
- Landscape architect/transportation planner: Barry Warner, SRF Consulting
- City planner: Kevin Ringwald, City of Chaska
- Market analyst: Sam Newberg, Joe Urban
- Financial analyst: Jeffrey Nosbush, Cushman & Wakefield

Shoreview Policy Leaders

- Mayor Sandy Martin
- Marlin Rudebusch, economic development commissioner
- Gerry Wenner, planning commissioner
- Steve Solomonson, planning commissioner
- Kathleen Nordine, city planner

Property Owners

- Eric and Max Siegler, Tycon Companies

Summary

Midland Terrace in Shoreview, a 420-unit apartment complex with a retail strip center, offers well-maintained apartments at a variety of rents—many of them within the range of affordable housing as defined by federal and state housing agencies. The site includes Lake Shoreview, a protected wetland that has degraded over the years.

The City of Shoreview, with cooperation from the owners of the Midland Terrace site, requested that a ULI Minnesota Technical Assistance Panel be completed to assess potential improvements for the site now and in the future. This assistance is part of the City of Shoreview's participation in the ULI Minnesota/Regional Council of Mayors Opportunity City Pilot Program.

The Technical Assistance Panel looked at the strengths, weaknesses, opportunities and threats (SWOT) of the site and recommended:

- Creation of a long-term strategy that would allow the owners to change as needed with the market, and that would include a master plan for replacement of buildings when they are no longer viable.
- Upgrade of the lake quality, including pre-treatment of run-off and reduced square footage of parking surfaces.
- Strategic maintenance done with a long-term design vision in mind.
- Redevelopment of the northwest corner of the site that would include removing the retail strip center, realigning Owasso Street to the north and construction of a new multi-unit building that would create diverse product offerings for the site.
- Improving the overall site, including creating a trail around the lake, removing many garages and parking stalls, reducing and replacing impervious surfaces, landscaping and creating additional boulevard appeal.
- Consideration of multiple financing options, including HUD loans and tax-increment financing.

Currently, the apartment complex has little problem filling apartments as tenants move out, but the market and tenant expectations are changing. If Midland Terrace does not develop units with the kind of amenities renters expect, it will likely find its relatively comfortable position in the marketplace threatened. This will be particularly evident as new rental options are built within the northern suburban marketplace.

The goal for the owners, and for the City of Shoreview, should be to create a range of housing options and choice for renters, from single students to young families to established professionals and seniors.

Midland Terrace Apartments Site

Midland Terrace is an apartment complex of 420 units in 10 identical buildings, each 2-1/2 stories. The buildings sit on about 26.5 acres, about 6.5 of them wetland. The apartment complex forms a horseshoe shape around the northeast to the southeast shore of Lake Shoreview. The apartment buildings were constructed in 1969 and 1970 and have been well maintained since then. Tycon Companies owns and manages the property.

At the northwest corner of the Midland Terrace property is a 13,000 square foot commercial retail strip center, built in 1969, with 13 business spaces. The retail center is also owned by Tycon Companies. None of the businesses in the retail center (which include a mini-mart, a dog groomer and a pizza restaurant) draws a great deal of traffic and frequently one or two of the business spaces are vacant.

The assessed value of the apartment complex for 2009 was \$22,887,900. The assessed value for the strip center was \$988,400.

Apartment Details

- Each apartment building is of wood construction with a flat roof and a combination of metal siding and face brick exterior. The buildings have mansard rooflines with cedar shingles. Each of the apartment buildings has a separate entrance.
- Each unit is equipped with hardwired smoke detectors and there are fire extinguishers, pull-alarms, and emergency lights located in the interior common areas.
- There are no elevators and only a few first-floor units are positioned in such a way that they can be handicap-accessible.
- Each building has a laundry area, with coin-operated washers and dryers.
- Rents for the apartments range from \$595 for some efficiency apartments to \$970 for some two-bedroom apartments. About 10 percent of the units are rented to households using Section 8 funds. Rents for identical units vary based on where the building is located—those closer and/or with views of Lake Shoreview are higher—and length of residency.
- Number of units: 30 efficiency apartments, 500 square feet, with rents from \$595 to \$695; 270 one-bedroom, one-bath apartments, 700 square feet, with rents from \$634 to \$800; 120 two-bedroom, one-bath apartments, 950 square feet, with rents from \$805 to \$970.
- Individual units have relatively large living rooms and bedrooms, with sliding glass doors off the living room. Kitchens are small and separated from a small dining area by a wall. All first-floor units have a patio; second- and third-floor units have a balcony.
- Unit amenities include kitchen appliances (with dishwasher and garbage disposal), a wall-unit air-conditioner, mini-blinds and a ceiling fan in the dining area. Each unit has a storage locker.

- The tenant pays for electricity, cable television and telephone. Gas heat (from shared boilers in each building), water/sewer and garbage removal are included in the rent.
- The complex has a community building with a party room, a fitness room, two saunas, men's and women's locker rooms and a heated pool with a "tanning deck." In the past few years, the management has put in barbeque grills on concrete slabs in several spots around the complex, which have been very well used.
- There is parking available for 840 vehicles; 246 stalls in detached parking garages and 594 spots of surface parking. Most residents prefer to use the surface parking spaces—even if they rent a stall for \$35 a month. There are significantly more spaces available than are in use and quite a bit of the property is surface parking area. The complex management is installing bike racks, because demand for them has grown.

Lake Shoreview

Lake Shoreview is a protected wetland, classified as a Category II water body by the City of Shoreview. Water bodies in that classification generally are used for activities like boating and fishing, in which there is "indirect contact" with the water; they are not used for swimming or wading.

City residents and the apartment owners recall when the lake was clear and had a beach for swimmers. Today, the lake is green and filled with silt, algae and weeds. Geese are abundant, leaving their droppings on much of the shore and well beyond. The lake is still an asset to the property because it offers a natural view, but is virtually unused in any recreational way.

There are two stormwater inlets into the lake. The city has long-term plans (2013 and 2014) for stormwater treatment structures on both inlets to help improve the water quality.

Runoff from the hard surfaces and lawns of the apartment complex is the primary contributor to the degradation of the lake water quality; the water quality cannot be improved without changes by the property owners.

Demographics

Shoreview is, like many Twin Cities communities, aging, and the trend is expected to steadily increase over the next 10-15 years in response to limited move-up housing options and very low residential turnover rates.

The City of Shoreview has an aging population—the average age of Shoreview residents is 52—and is looking for strategies to bring and keep young families in the community. The demographic change report for Shoreview, prepared by Excensus LLC as part of the ULI Minnesota/Regional Council of Mayors Housing Initiative, showed:

- Over 30 percent of the households in Shoreview are between the ages of 55 and 74.
- Over 80 percent of the households are aging in place; they are not moving.
- Younger households, those under age 35, are having difficulty finding available housing. Only 12 percent of all households in Shoreview are under age 35.

Midland Terrace Apartments has a younger population than the city: about 43 percent of its households are under age 35. This is not surprising, given that most of the apartments (300 of 420) are either efficiencies or one-bedrooms. These younger households are responsible for about 57 percent of the household turnover (2004-2007) in the apartments. Most move to other parts of the seven-county metropolitan area.

Site tenants include a broad range of incomes, from Section 8-eligible to up to \$80,000-\$100,000. Many tenants work in the area and walk or take the bus to work. Residents include students at nearby Bethel and Northwestern colleges, employees of local companies (Boston Scientific, Medtronic, H.B. Fuller) and nearby retail (Target, Cub Foods, etc.) and some retirees (20 residents are 65 or older and three are 75 or older). There are several Ramsey County Sheriff's deputies living in the complex.

Charge to the Technical Assistance Panel

The Midland Terrace complex is not a problem for the City of Shoreview. The apartment buildings—which constitute 56-57 percent of the city’s market-rate rental units (excluding senior housing)—are well maintained. There are few problems with tenants (the owners screen carefully) and the varied rents provide affordable housing for a range of incomes, including those with Section 8 housing assistance.

Going forward, however, the City of Shoreview and the owners of the property are interested in exploring how the site might be redeveloped and/or improved in order to provide a broader variety of housing options, to remain viable as housing preferences and the market change, and to be a more attractive space—perhaps with some public use.

The Technical Assistance Panel was charged with making recommendations for:

- How the apartments can be improved for both the short and long term.
- Whether and how the site might provide housing for young families.
- Redevelopment of the retail strip center.
- Options for higher-density development on the site.
- Improvements to the lake and outdoor areas of the complex.

Observations

The Technical Assistance Panel started its discussion of Midland Terrace Apartments using a SWOT matrix of:

- **Strengths** that need to be maintained, built on or leveraged. These are aspects of the property that are good right now.
- **Weaknesses** that need to be remedied or stopped. These are aspects of the property that are problems right now.
- **Opportunities** that need to be prioritized and optimized. These are aspects of the property that can be good in the future.
- **Threats** that need to be countered or minimized. These are aspects of the property that could become bad in the future.

There are many positive attributes of the Midland Terrace Apartment site, both as it exists today and in what it may become in the future. Some of these attributes have negatives attached to them. For example: Lake Shoreview is an asset to the site, but its current condition is a problem that needs to be resolved.

Strengths of the Site and Buildings

- **Responsible ownership.** Tycon has owned the property since 1976, and has consistently maintained and improved it, updating roofs, balconies, windows, etc. The owners currently have plans to replace boilers in buildings that have not been updated, replace the roof on one building (the only one that has not been updated), resurface parking areas and replace the cedar shingles on all of the buildings. The owners have been associated with the property for nearly 40 years (first as managers, then owners) and say they have every intention of continuing to own and manage it for another 40 years. They are looking for ways to invest in the property so it will continue to be strong for them, not for improvements that will make it easier to sell in the near future.
- **Local amenities.** The site is across the street to two schools, near a regional park, next to two significant roads, has regular bus service through the site (Metro Transit Rte. 227), is within a short distance (about a half mile) of retail and personal services and is close to a variety of employment, from high-end professional to retail and blue-collar positions. It's possible for tenants to go to work, buy groceries and entertain themselves with little or no use of a personal automobile.
- **Natural features.** Lake Shoreview, at the center of the site, gives a natural look and feeling to the apartment complex. There is green space between buildings.
- **Parcel size, shape and location.** The apartment complex is bounded on two sides by roads, on one by an industrial area and only on one by a few single-family homes. This relative isolation from other neighborhoods means that redevelopment is less likely to stir opposition from nearby homeowners.

- **Good relationship with city and nearby property owners.** Tycon has a good relationship with the City of Shoreview. Both because apartment buildings are somewhat distant from nearby homes, and because the management of the apartments is careful about screening and maintenance, there are no complaints about the property.
- **High occupancy.** Occupancy ranges from 96 to 100 percent. The two-bedroom units (120 of the 420 apartments) are in most demand; one-bedrooms are most likely to go empty for a little while longer than two-bedroom and studio units.
- **Affordable housing.** The variety of rents makes many of the apartments fall into the range of affordable housing for families with income that is 60 percent of area median income (AMI) which is \$50,340 for a family of four. About 10 percent of the tenants are using Section 8 subsidies.
- **Lack of competition.** Currently, there is little new construction of apartments in the Shoreview area that would offer competition for tenants. Midland Terrace Apartments represents 52 percent of the market-rate apartments in Shoreview (not counting senior housing) and other apartments in the area were built during the same time period and are similar—or lesser—in quality and amenities.
- **Size of the units.** The units are larger than most apartments built during the same time period. The living rooms and bedrooms are quite large and have an open feel to them.
- **Strong financials.** The owners could not finance a full redevelopment of the site—and don't want to—but expect to phase in improvements of the site without public financing assistance.

Weaknesses of the Site and Buildings

- **Dated style.** Although the apartment units and buildings have been maintained well, they have not been renovated and improved. They are very nice, clean apartments—in a style appropriate to 40 years ago. As things have become worn or damaged, the owners have replaced them—often with better materials—but they have not upgraded the style.
- **Reluctance to reinvest.** The owners are not interested in doing a massive overhaul of the complex—and they currently have no reason to do so, given that they are making a good income from the apartments, with a high occupancy rate.
- **Lack of vision.** There is no long-term vision for what the complex might be in the future. Repairs are made, but the style of the units and the buildings doesn't change. There's no plan for how buildings and units might be replaced over time, as needed.
- **Basin water quality.** The lake has degraded badly over the last few years, in particular, and will continue to degrade without environmental changes. The quality of the water makes it virtually unusable for recreation—and the goose droppings inhibit enjoyment of the grass around the lake. The

primary source of runoff into the lake, which is the main contributor of degradation, is the Midland Terrace site.

- **Too much pavement.** With multiple surface parking lots around the buildings, there is a great deal of pavement. Surface runoff from the pavement contributes significantly to the degradation of Lake Shoreview. There is pavement where there could be more greenspace between buildings.
- **Railroad tracks.** There is no option to create a new entrance to the site, because it would have to cross the railroad tracks. There are only a couple of trains each day, and there have been no complaints about train noise, but the tracks present a limit to some road reconstruction.
- **Placement of the buildings.** Some buildings front Lake Shoreview, some are perpendicular to the lake. The buildings and garages seem scattered around the site, with no clear sense of why they are placed where they are.
- **Poor soil condition.** In some areas on the south side of the site, the soil is soft and may limit construction, or make it more expensive.
- **Garages.** The garages scattered around the site add to the sense of irregular placement of structures. The garages are underused; many tenants prefer to park outside, even if they pay for a garage space. They use garages for extra storage.
- **Lack of elevators.** Without elevators, the buildings are not accessible to the handicapped and to some seniors, and are less attractive to young families with children and equipment that have to be carried up and down stairs.
- **Retail strip center.** Businesses have come and gone regularly. Tycon bought the retail strip in order to control it, but does not see it as an asset to the site. Although busy County Road E is just a few yards away, the placement of the retail strip center makes it not very accessible to traffic there.

Opportunities for the Site

- **Create a long-term strategy.** A vision for the site would bring it into the 21st century, in stages or all at once. As units and buildings need renovation, a long term strategy could be developed to determine a process that would provide strategic options for building replacement considering overall site restructuring. A vision that considers the long term-strategy is important - rather than a building by building replacement plan.
- **Provide multiple housing types.** As buildings are replaced over time, a greater variety of units can be created. Three-bedroom units and two-bedroom, two-bath units would be attractive to young families with children. New buildings with elevators would be accessible for seniors and those with handicaps.
- **Work with underutilized space.** Reducing the amount of surface parking and removing some (perhaps most) of the garages would offer opportunities to create additional green space.

- **Improve Shoreview Lake.** Improving the water quality of the lake would make it an even more significant asset to the site and to the City of Shoreview.
- **Realign the street.** Straightening Owasso Street at the entrance, where the retail strip center sits now, would allow space to develop a higher-density building and to provide for a quality gateway to the property.
- **Replace the retail strip center.** The retail strip center is dated, not very busy and not much of an asset to the complex. It seems unlikely that any business will thrive there. Removing the commercial building would create an opportunity for new construction to diversity the rental base of the complex.
- **Create a gateway to the apartment complex.** Most of the complex is hidden from Victoria Street and County Road E. The area where the retail strip center now sits is the first thing someone turning into Owasso Street sees. That entrance can be revised to create a more positive feeling of neighborhood, something more welcoming for residents and visitors.
- **Add overall appeal.** Creative landscaping and more green space could enhance the appeal of the site, especially in combination with reducing the amount of parking structures and spaces.
- **Add biking and walking.** Biking and walking paths throughout the site, with links to retail, employment, recreation, etc. in the City of Shoreview would make it easier for residents to reduce or eliminate use of personal vehicles, would create connections between the buildings—and tenants—in the apartment complex and would be more attractive to young people who are interested in outdoor recreation options.
- **Nearby area for employment growth.** Close to the site is an area that could add businesses, and therefore jobs in the future, bringing in new potential renters for the complex.

Threats to the Property and/or Redevelopment

- **Complacency.** For almost 40 years, the property has been managed well and has had extraordinarily high occupancy with no extraordinary problems. Why change? Without a plan for renovation and redevelopment, the property can become less attractive over time as renters find other, more contemporary options.
- **Future competition in the market.** Currently there is little competition for renters near Midland Terrace Apartments. Other apartments nearby are similar in age, amenities and design. That situation could change, however, if the demand for rental units increases.
- **Continued degradation of the basin.** If Lake Shoreview is not improved, it will degrade further, becoming little more than a swampy catchbasin.
- **Viability of nearby employers.** If some of the major employers in the area reduce operations or shut down altogether, there could be fewer potential renters for Midland Terrace.

- **Zoning requirements.** The City of Shoreview's zoning code calls for 8-12 units per acre for high-density development. Excluding Lake Shoreview, Midland Terrace has a density of 21 units per acre. The City would likely use a PUD for development on the site, allowing for greater density.
- **Neighborhood opposition to greater density.** There have not been problems between the apartment complex and the few neighboring homes, but plans for higher-density buildings could find opposition nevertheless.
- **Resistance to using public funding.** The owners' desire to finance any development without public funding could limit what is possible for the site and reduce the amount of affordable housing in the future.

Recommendations

Midland Terrace Apartments is not a troubled site, in need of immediate change. It is a well maintained and managed, fully occupied apartment complex that, because of its mix of rents, provides affordable housing at market rates. The long-term owners of the site are committed to remaining long-term owners and to being responsible citizens of the City of Shoreview.

The owners' desire for redevelopment that is phased in over time makes sense for this site; a tear-down and complete redevelopment does not. The recommendations of the Technical Advisory Panel are a framework for change over time that will create a broader mix of apartment types on the site, making it an option for a greater mix of tenants—particularly for young families—at different income levels.

The one exception to the idea of phased-in, long-term upgrades is Lake Shoreview, which needs attention immediately.

Create a Long-Term Strategy

The current approach of reinvestment in the buildings and apartment units as they are will not work over the long term. The owners of the property have done a good job of maintaining it, but to be viable in the future, with changing expectations and a changing marketplace, the vision for the complex should be more than a building by building maintenance approach such as what material to use to replace the worn cedar shingles.

Although there are some long-term residents in the complex, there is regular turnover as well. Currently, management is able to fill apartments quickly once a tenant moves out, because the price point is relatively low and there are few options in the immediate area. There are other sites nearby that could be—and may well be—developed in the future, with units that are more desirable in today's market. In the future, the vacancy rate is likely to increase. (Fourth quarter 2008 average rents in the Twin Cities metro were \$906 and the average vacancy rate was 4.9 percent, a slight decline in average rent and a slight increase in vacancy rates over the previous quarter. Rent declines and higher vacancy rates are expected to continue through at least 2009.)

A long-term strategy would provide the owners of the site options for repositioning facilities in response to market changes.

The long-term strategy will include a master plan for the site that will include:

- A template for placement of structures on the site.
- Design standards for buildings and units.
- Financing methods that can be accessed.

Goals should include creating a more diversified product—different kinds of units, buildings and amenities, and different price points for rents; creating more of a neighborhood and community on the site with more shared spaces; and creating appeal for a diverse group of renters—in particular, young families (with amenities such as play areas).

With a master plan, the owners can deal with today's issues at the site in a way that takes them towards the future. If building community on the site for the long-term is part of the master plan, amenities that encourage that, such as more grills or playground equipment, can be added now.

When market changes and more competition creates a higher vacancy rate, the owners may try to concentrate those vacancies in one area, then use that opportunity to redevelop part of the site with a new structure that provides a mix of rental options.

Upgrade Lake Quality and Use

Lake Shoreview is an asset to the site, but it's an asset that is degrading quickly. The City of Shoreview has plans to do stormwater treatment on the two inlets to the lake within the next five years, but run-off from the Midland Terrace property is the most significant factor in the quality of the lake and needs to be addressed with measures that include:

- Pre-treatment of any hard-surface run-off on the property.
- Establishing a native plant edge, which will catch silt and discourage geese.
- Reducing the amount of hard surface on the complex by reducing parking areas.
- Manage the turf on the property in a manner that is compliant with the basin.
- Remove the geese. The University of Minnesota has a program for trapping and then relocating geese far away, so they will not return.
- Consider installation of an aeration system, in conjunction with pre-treatment of run-off, removal of geese and other measures. (Estimated cost about \$40,000.)
- Consider having the city proactively manage the lake, with the cooperation of the property owner. The city would be better able to work with the DNR and other agencies to improve the water quality and maintain it.



The lake is unlikely to become a community swimming hole, but the water quality can be greatly—and relatively quickly—improved with these kind of measures, so that boating and possibly even fishing would be possible again.

Do Strategic Maintenance

All ongoing renovation to units and buildings should be done with a design vision in mind. A complete design vision should be developed for the site to take it into the future. The TAP recommends that the design vision include, at a minimum, the following:

Buildings

- Replace the cedar shakes with panel siding in richer and varied colors.

- Replace flat roofs with gabled roofs that have an overhang (which would keep water from “popping” the Chicago bricks, a current problem).
- Complete an energy audit that would include alternate options for heating and cooling the buildings to enhance long term cost and energy efficiency.
- Add sprinklers. The Shoreview City Council should be encouraged to adopt an ordinance providing for the financing of fire protection systems by special assessment for existing structures, as provided by Minnesota Statute, Section 429.1011, Subdivision 14. The ordinance would provide the City a financing mechanism through special assessments, provided the property owners enter into a formal agreement with the City. The owner of a building with a sprinkler system can realize reduced insurance premiums, which can then be used to pay off the special assessment. (Refer to attached ordinance from the City of Chaska).
- Update common areas and entrances of the buildings.
- Install better lighting in hallways.
- Add skylights.

Refer to the attached elevation sketch of the exterior of a remodeled apartment building in the appendix.

Units

- Reduce or eliminate the wall between the kitchen and dining/living rooms, to create a more open layout.
- Install stacked laundry units in two-bedroom apartments.
- Update lighting fixtures with those that are consistent with a design strategy (could be more contemporary, or deliberately retro, depending on the strategy).

Common areas

- Assess usage of the pool, to determine whether it makes sense to keep it. If it does, improve the acoustics in the pool area so the noise level is reduced.
- If some functions of the current rental office/community room move to a new building, create a big party room in that space. (That might include a small theater for showing movies or watching major television events.)
- Consider adding communal bicycles to the site.
- Add play areas to retain and attract families with children.
- If garages are eliminated or reduced in number, create a new storage building for equipment some residents are now keeping in their garage spaces.



Most of these improvements would be made unit-by-unit, building-by-building, when possible. This does not replace a long-term master plan and strategy for the site, but allows for upgrading and modernizing the apartments that will help to maintain a positive

tenant base in the current marketplace. The long-term master plan will provide options to remain competitive not only currently but for the future market.

Redevelop Area in Northwest Corner

Under any scenario for the site, it is recommended that the underperforming retail strip center would be removed and new multi-unit general occupancy apartment would replace it. The owners have expressed interest in creating senior rental housing on that site, but that is not the only option—and it's not the option the Technical Assistance Panel recommends. The future of that parcel in the complex should include:

- Removing the retail strip center.
- Realigning Owasso Street to the north, taking it away from the lakeshore and creating a parcel that fronts on the lake.
- Construct general occupancy rental building that provides more modern options not being offered currently within the existing Midland Terrace Apartments. Conduct a market analysis to determine what kind of rental units are most likely to succeed in this area now and in the future. A substantial amount, but not all, recent apartment development in the Twin Cities has been high-amenity, luxury product. High-amenity locations, such as Uptown, transit-oriented and affluent suburban areas, are popular. The market has demonstrated a willingness to sacrifice square footage for good location and attractive amenities. Allowing the market to determine its attractiveness for young professionals, empty nesters or seniors, rather than designating it for senior only, will help to attract a broader tenant base that desires a newer rental option not currently available in the community.
- Constructing a higher-density building that can be a flagship for the Midland Terrace apartment complex. The new building should have elevators; energy-efficient construction, heat and appliances; units that fit the expectations of higher-end renters (but with a mix of rents within the building); and lake views for every unit.
- Consider moving the rental office and community center to the new building, especially if it is determined that the pool is not being widely used. Provide more modern common areas that encourage community gathering – creating a neighborhood atmosphere.

Improve Site Overall

With landscaping and a reduction in the number of parking stalls, the site can be dramatically improved and updated for current use. A trail would make the lake a greater asset to the complex and to the City of Shoreview. Immediate improvements can include:

- A trail around the lake. Creating a walking/biking path around the lake would fit with the kind of amenities many renters are looking for and could become a city asset as well. Tycon owns all but a couple of lots around the lakeshore; ideally, the city would get easements through those properties but



even without that, Midland Terrace could have a path that circles most of the lake and lets residents have a scenic walk from the south end of the property to the entrance off Victoria on the northeast.

- Removal of as many garages and surface parking stalls as possible. Currently, there are two spaces available for every unit, but the owners report that many go unused. Even if the number were reduced to 1.5 spaces for each efficiency and one-bedroom apartment, and two for every two-bedroom apartment, it would reduce parking spaces by 120. Removing garages and parking stalls would open up room for greenspace and landscaping that would connect buildings and better join those at the east end of the complex to the rest of the site. (A building with storage spaces would serve those residents who now use their garages for storage, rather than or in addition to for parking.)
- 
- Replace some or all surfaces with pervious materials that will allow water to seep back into the water table, rather than running into Lake Shoreview.
 - Better landscaping around the buildings. The 1960s' feel of the buildings can be disguised somewhat by adding more interesting low maintenance landscaping around the buildings.
 - Stronger boulevard appeal. Landscaping and pedestrian lighting can create a better sense of place for Midland Terrace.
 - Landscaping around parking areas. Landscaping can not only make these parts of the complex more attractive, it also can help improve and reduce surface run-off into Lake Shoreview.

Refer to attached site plan as an option.

Consider All Financing Options

The capital market environment is currently unsettled, which limits the potential debt-financing sources for new construction. Agency lenders (Freddie and Fannie) are actively underwriting new loans for existing multifamily product, but have sidelined their new construction lending at this time. While local banks are an option for strong developer-sponsors to obtain credit at favorable interest rates, an extensive general banking relationship is important in obtaining financing from this source—and loan proceeds are likely to top out at 60-65 percent loan-to-value ratios for loan terms that are relatively short.

The most viable option for financing construction of the contemplated 62-unit project in today's environment is most likely a HUD program loan. The HUD/FHA 221(d)(4) mortgage loan is a non-recourse, fully-amortizing 40-year term construction-to-permanent loan which could be used to finance up to 90 percent of the project's construction costs, subject to a 1.25 x debt service coverage ratio constraint. Recent interest rates quoted for this loan type are approximately 5.75 percent, which includes financing of the required mortgage insurance premium. These loans typically include front-end placement and financing fees that generally run higher than those associated with more conventional life company or bank financing options; however, this is

mitigated by the 40-year loan term and the fact that there is no need for a take-out loan upon completion of construction. In terms of structure, this program requires a working capital escrow equal to 2 percent of the loan to be in place until one year following project completion. This financing option also requires establishing an operating deficit escrow in an amount sufficient to cover all projected operating shortfalls from construction completion through the project's stabilization.

Public financing tools such as tax-increment financing (TIF) may be utilized to cover some site costs involving rerouting of the roadway and other overall site improvements.

A preliminary financial analysis of this new construction component of the recommendations is included in the appendix of this report. A summary of the financial analysis follows:

Major Assumptions

- Construction of a new building consisting of 71,672 square feet with 60,921 square feet of net rentable area.
- Construction costs are estimated at \$95 PSF.
- Demolition and site improvement costs associated with retail building, roadway, etc. are estimated at \$700,000.
- 62 new apartment units would be created and would rent for \$1.40 PSF per month.
- Operating costs for the new building are estimated at \$580 per unit per month.

As noted above, we believe that the most likely financial structure involves the use of a HUD loan program with a 5.75 percent interest rate, a 40-year amortization and a 25-year term. Additionally, the creation of a TIF district for this project would result in approximately \$39,000 of annual TIF proceeds that the owner could use to help pay for the various public road and trail improvements being recommended. This annual TIF payment to the owner was factored into the Net Operating Income to allow a larger first mortgage from HUD. While Shoreview does not currently have a detailed TIF policy relating specifically to multi-family housing developments, the following TIF assumptions were used based upon the City of Chaska's policy and are summarized below.

- 18 year district (verses the full 25 years allowed by State Statute).
- Cap on the developer real estate tax at \$500 per unit for 18 years.
- Discount rate is 6 percent.
- Assume no growth in valuation of the project over the 18 year period.
- Requires a minimum valuation agreement for the 18 year period equal to the project (land and building) with the assumption that Ramsey County would accept the assessed value used in the proforma. This allows the city to safely bond to capture the net present value in TIF proceeds for the development.
- Chaska's policy also requires that some of the project units in the Midland Terrace complex are rented at an affordable price which seems reasonable to maintain based upon the current rent structure.

The result is a total project cost of \$9,963,000, with a HUD first mortgage of \$7,594,000 and owner equity of \$2,370,000. The project would produce an average cash-on-cash

return of 10.43 percent on the owner's equity. The internal rate of return over a 10-year holding period would be in excess of 18 percent.

A sensitivity analysis was completed to analyze the effects of various rent levels and cap rates for valuation purposes, showing rents ranging from \$1.20-\$1.60 per square foot and cap rates ranging from 6 percent to 8 percent. The range of values produced by this analysis was \$5.4 million to \$12.0 million, illustrating the importance of completing a thorough market analysis to confirm the appropriate rental rates for the new construction component of the project.

While we envision that the first new building would serve the higher end of the rental market within the Midland Terrace project as a whole, we feel it is important to include a short summary of affordable housing financing options to consider as the remainder of the project is renovated and redeveloped in accordance with a future master plan.

There are a variety of publicly sponsored affordable housing programs that provide financing for affordable housing developments. Both non-profit and for-profit organizations are eligible to receive funding from the majority of programs.

Most affordable housing programs have maximum rent and income limitations that are required on a portion of the units. Currently most programs focus on households between 50% and 60% of the Area Median Income (AMI). The chart below provides a sample of rent restrictions for various bedroom sizes.

# of Bedrooms	Maximum Rents at 50% AMI	Maximum Rents at 60% AMI
Studio	707	849
1	758	909
2	910	1,092
3	1,051	1,262

Note: these are gross rent levels; tenant paid utility charges must be within this maximum level.

Accepting these funding sources requires long-term affordability commitments of a minimum of 15 years, and most require 30 year commitments. They also trigger prevailing wage rates as part of the construction, and other regulatory requirements. Annual compliance certifications and reporting must be completed.

Though public sources are a good way to help increase the funding to complete additional work, they are allocated as part of competitive processes, so two to three year funding assembly time frames are not uncommon. The changes in the economy have decreased the amount of funds available, which is expected to lengthen time frames even greater than the typical 2 to 3 years.

The following is a summary of the public financing sources that can be explored by Midland Terrace and/or the City of Shoreview to ensure that some of the units remain affordable through future renovations and rebuilding of the site.

State Sources: for more information, see www.mnhousing.gov

Minnesota Housing provides a variety of funding options to build and operate affordable housing. The most common sources are:

Amortizing Mortgage Loans: Low/Moderate Income Rental (LMIR)

This mortgage resource is targeted to A) multi-family developments using the federal Low Income Housing Tax credits or B) mixed income multi-family developments where at least 20% of the units are affordable to those at 50% of the adjusted Area Median Income (AMI) or 40% of the units are affordable to households at 60% AMI with the balance of the units at “market rents”.

There is typically a favorable interest rate, which is based on the prevailing “Minnesota Mortgage Program – Government Rate”. The maximum loan to value ratio is 90% and debt coverage ratio is typically 1.15 for new construction and 1.2 for rehabilitation.

Non-Amortizing Loans: Deferred Debt (various sources)

Minnesota Housing also allocates non-amortizing debt that requires no debt service payment (neither principle nor interest) for a 30-year time frame as long as the property remains in compliance. A portion of the units need to be set-aside for households who meet affordability guidelines. These funds are also allocated on a competitive basis.

Low Income Housing Tax Credit:

Minnesota Housing and a few other selected cities receive an allocation of Low Income Housing Tax Credits, which are commonly called the 9% tax credit. The 9% Tax Credit (LIHTC) is the most important resource for creating affordable housing in the United States today. The LIHTC Program is an indirect Federal subsidy used to finance the development of affordable rental housing for low-income households. The LIHTC Program may seem complicated, but many local housing and community development agencies are effectively using these tax credits to increase the supply of affordable housing in their communities.

The LIHTC Program, which is based on Section 42 of the Internal Revenue Code, was enacted by Congress in 1986 to provide the private market with an incentive to invest in affordable rental housing. Federal housing tax credits are awarded to developers of qualified projects. Developers then sell these credits to investors to raise capital (or equity) for their projects, which reduces the debt that the developer would otherwise have to borrow. Because the debt is lower, a tax credit property can in turn offer lower, more affordable rents.

Provided the property maintains compliance with the program requirements, investors receive a dollar-for-dollar credit against their Federal tax liability each year over a period of 10 years. The amount of the annual credit is based on the amount invested in the affordable housing.

The equity raised through the tax credit program typically pays for 40% to 60% of the total development cost

Housing Revenue Bonds combined with the 4% Low Income Housing Tax Credit

A Qualified Tax-Exempt Bond-Financed Project is a housing development in which some portion of Eligible Basis is financed with the proceeds of tax-exempt obligations. Since

Qualified Tax-Exempt Bond-Financed Projects are not subject to the state's Annual Authority, they may receive Credit without competing with other projects so long as they comply with the tax credit affordability criteria and requirements.

Regional Sources:

Metropolitan Council provides capital financing, typically in the form of grants, for public improvements through their Livable Communities program and environmental remediation through their Tax Base Revitalization Account (TBRA). Each program includes as requirement for a portion of the project to include affordable or workforce housing (rental and ownership) up to 115% of the Area Median Income (AMI). For more information, see www.metrocouncil.org

Department of Employment and Economic Development (DEED): Minnesota communities can tap into the Department of Employment and Economic Development's financial and technical assistance programs to help spur business growth while addressing important revitalization issues. DEED offers grants, loans and technical assistance for redevelopment projects and activities, including housing and commercial rehabilitation, wastewater treatment facilities and drinking water systems, and contaminated site clean-up. For more information, see www.deed.state.mn.us

County Sources: for more information, see www.co.ramsey.mn.us

Ramsey County Community and Economic Development/Housing and Redevelopment Authority (HRA) has established an Environmental Response Fund to help project partners clean-up contaminated properties throughout the county, and works with developers and owners of rental properties in suburban Ramsey County communities that are affordable to tenants whose incomes are less than 80% of the Area Median Income.

Rental Assistance:

The Section 8 Rental Voucher Program increases affordable housing choices for very low-income households by allowing families to choose privately owned rental housing. The public housing authority (PHA) generally pays the landlord the difference between 30 percent of household income and the PHA-determined payment standard-about 80 to 100 percent of the fair market rent (FMR). The rent must be reasonable. The household may choose a unit with a higher rent than the FMR and pay the landlord the difference or choose a lower cost unit and keep the difference.

Occasionally, the Metropolitan Council, who administers the Section 8 Program for most suburban communities provide opportunities for a limited number of Project Based Section 8 subsidies that are committed to specific units at the site for a period of 10 years.

Appendix

- **Current Site**
- **Possible Exterior Changes**
- **Proposed Site Plan - Reconfigured Roadway, Trails, Green Corridors & New Building**
- **Financial Analysis for Site Improvements and New Building Construction with Tax Increment Financing Proforma – attached excel document.**
- **Fire Protection Ordinance – City of Chaska Sample**

Current Site

Midland Terrace Apartments

3529 Owasso Street



DISCLAIMER: This map is neither a legally recorded map nor a survey and is not intended to be used as one. This map is a compilation of records, information and data located in various city, county, state and federal offices and other sources regarding the area shown, and is to be used for reference purposes only.

SOURCES: Ramsey County (September 25, 2008), The Lawrence Group (September 25, 2008 for County parcel and property records data; September 2008 for commercial and residential data; April 2006 for color aerial

Possible Exterior Changes – Sketch



Reconfigured Roadway, New Construction - (11x17 copy available)



Fire Protection Ordinance – City of Chaska Sample

Special Assessments for Fire Protection Systems

Section 131. Definitions.

Unless the context clearly indicates otherwise, the following words, combination of words, terms, and phrases used in Article V shall have the meaning set forth in the subdivisions of this section which follow:

- a. Fire Protection System. The definition of Fire Protection System as set forth in Minnesota Statutes, Section 429.011, Subd. 14, as amended from time to time, is hereby adopted by reference as if fully set forth herein. Fire Protection Systems shall also include, but are not limited to, sprinkler systems, fire hydrants, fire alarm systems, special suppression systems, and smoke removal systems in affiliation with high-piled storage.
- b. Improvement. This term shall mean the construction, reconstruction, installation, alteration, extension, operation, maintenance, and promotion of a Fire Protection System in an existing building regardless of its use as a residence, business, institution, or other category of use.

Section 132. Petition

Whenever all owners of real property named as the location of any contemplated improvement shall petition the City Council to construct the improvement and to assess the entire cost against the property, the Council may, without a public hearing, adopt a resolution determining such fact and ordering the improvement.

- a. Except as may otherwise be provided in Article V, the petition, its consideration, and all activities taken pursuant to petition shall comply with the provisions of Minnesota Statutes, Chapter 429, as they apply to fire sprinkler systems and improvements.
- b. The City will not accept any petition requesting that the municipality own and install a fire protection system.
- c. The petition shall contain the plans and specifications for the improvement and the estimated cost of the improvement.
- d. Unless warranted by special circumstances, all petitions for the special assessment of the project must be received and acted upon by the City Council prior to the start of any improvement.
 - 1. Consideration of any petition is subject to a determination by the City Council in its sole discretion that sufficient City funds are available for the project. City staff shall periodically advise the Council with regard to the availability of appropriate funds.
 - 2. The petition will not be approved unless the improvement is a permanent built-in fire protection feature.
 - 3. The City shall not approve the petition until it has reviewed and approved the plans, specifications, and cost estimates contained in the petition.

- e. The owners shall be responsible for contracting for the actual installation of a Fire Protection System. However, the City shall have the final right to disapprove of any contractor selected by the owner.
- f. Petitioner(s) shall waive all rights to a public hearing and any appeal of the special assessments adopted by the City Council including, but not limited to, those set forth in Minnesota Statutes, Section 429.031, Subdivision 3, and Section 429.081. (Ord. No. 720, Art. V, Section 132f, dated 01-07-02)
- g. Prior to the start of any improvement, the petitioner must obtain at petitioner's expense all permits and approvals required by the City and any other governmental authority having jurisdiction in the matter.
- h. No payment shall be made by the City for any installation or construction until work is completed, reviewed, inspected, tested, and finally approved by the City. Partial payments may be made for work already completed, reviewed, inspected, and tested as above. However, in that event, a 5% retainage shall be retained by the City until such time all of the work is completed and the Fire Protection System is approved by the City, at which time payment in full for such improvement may be made. Any payment made shall be payable to the Petitioner(s) (Property Owners) and the Contractor. (Ord. No. 720, Chap. 9, Art. V, Sec. 132(h), dated 01-07-02)
- i. The amount to be paid by the City and specially assessed for the project shall not exceed the amount of the construction estimate contained in the petition, plus any City administrative costs and interest charges. The petitioners shall be responsible for any construction costs exceeding the amount of the construction estimate. However, if actual construction costs exceeds the construction estimate set forth in the petition, the petitioner may apply to City council to request an increase in the amount paid by the City and assessed against the property. Whether or not said additional amount shall be paid by the City and assessed shall be in the sole and absolute discretion of the City Council.
- j. No special assessments will be made for a period of more than ten (10) years, except as otherwise determined by the Council.
- k. If the petitioners request the abandonment of the special assessment project, all City costs incurred must be reimbursed by the petitioners. Abandonment may not be requested once any contract has been awarded in connection with the project.

Section 133. Financing

At any time after an improvement is ordered, the City Council may issue obligations in such amount as it deems necessary to defray in whole or part the expense incurred and estimated to be incurred in making the improvement, including every item of cost of the kinds authorized in Minnesota Statutes, Section 475.65.

- a. The Council may by resolution adopted prior to the sale of obligations pledge the full faith, credit, and taxing power of the City for the payment of the principal and interest (improvement bonds), or may choose not to pledge the full faith and credit of the municipality, but rather promise to pay solely out of the proper special fund or funds pledged to the payment of such obligations (revenue bonds). The effect of each such obligation shall be as set forth in Minnesota Statutes, Section 429.091.
- b. The financing of the improvement shall be governed further by the provisions of Minnesota Statutes, Section 429.091. (Ord. No. 688, Sec 1-3, 11-20-00)