

AGENDA
MINNETONKA ECONOMIC DEVELOPMENT AUTHORITY

Tuesday, September 19, 2006
6:00 p.m.

Boards and Commissions Room
Minnetonka City Hall, Lower Level

1. Call to Order.

2. Roll Call:

Liz Bayer	Peter St. Peter
Dan Duffy	Al Thomas
Dave Larson	Tony Wagner
Bunny Robinson	Bob Walker

3. Approve Minutes from August 8, 2006 EDA Meeting.

BUSINESS ITEMS

5. Shady Oak Road Update.

Action recommended is hear the update and discuss the redevelopment study.

6. Glen Lake Update

Action recommended is to hear the update.

7. Staff Report.

8. Other Business.

- There is a special joint study session with the City Council and Planning Commission on **Monday, October 16** at 6:30 p.m.

- The next regular EDA meeting will be **Tuesday, October 17** at 6:00 p.m.

8. Adjourn.

The mission of the Economic Development Authority is to advise the City Council on matters related to affordable housing, redevelopment and economic development.

**Unapproved
MINNETONKA ECONOMIC DEVELOPMENT AUTHORITY
MEETING MINUTES**

**August 8, 2006
6:00 p.m.**

**Boards & Commissions Room
Minnetonka City Hall, Lower Level**

1. CALL TO ORDER.

EDA Vice President Dan Duffy called the meeting to order at 6:10 p.m.

2. ROLL CALL.

EDA Commissioners present: Liz Bayer, Dan Duffy, Peter St. Peter (arrived at 6:25 p.m.), Al Thomas, and Bob Walker.

EDA Commissioners absent: Dave Larson, Bunny Robinson, and Tony Wagner.

Staff present: Ron Rankin and Elise Durbin

BUSINESS ITEMS

4. SHADY OAK ROAD UPDATE (this item taken up out of sequence).

Durbin said the purpose of this item is to give those Commissioners who were unable to attend the July 11 Joint Study Session with the Minnetonka and Hopkins City Councils an update on the Shady Oak Road project. She said this project started in 2005 when a series of meetings with the two city councils were held, and ultimately in August 2005, a preferred concept for the roadway was approved by the city councils. Durbin said a preliminary roadway design layout has been put together, and she reviewed the key aspects of the design. She said the city councils will be holding a joint public hearing to approve the preliminary roadway design—most likely in September.

Durbin said a second component of the Shady Oak Road project, besides the reconstruction of the roadway is a redevelopment study. She said this came out of the 2005 land-use analysis. Durbin reviewed what will be happening with the study and the timeline associated with it.

Walker asked what will happen if condemnation is needed for the roadway project. Rankin replied Hennepin County will be responsible for any condemnation needed due to the roadway improvements. He discussed the properties that will be total takings. Walker asked if any of these properties are

businesses. Rankin said all of the businesses on the west side of Shady Oak Road, except Suburban Square, will need total takings because of the roadway improvements.

Duffy said the EDA identified this area for mixed-use development, and asked if mixed-use will be looked at in the redevelopment study. Durbin replied the consultant will be looking at this type of land-use and others in their study.

Thomas said he was not impressed with the consultant's response about creating a vision for this area, and asked when the EDA can get involved. He suggested taking a portion of an EDA meeting to create a vision for the area. Walker asked if it would be appropriate for the consultant then to come to the EDA meeting. Rankin said the consultant heard Thomas' comments at the July 11 meeting, and contacted him to set-up a meeting where the vision can be discussed. Thomas said he would like to have the Minnetonka EDA and Hopkins HRA meet rather than the City Councils. He said the EDA's role is to make recommendations to the Minnetonka City Council.

Walker asked if the city border will be cleaned up as part of this project. Thomas suggested the EDA could take it up, and now is the time to do it. St. Peter said Hopkins should be a part of the discussion. Rankin said the border issue has been talked about at a staff level, and is a more sensitive issue for Hopkins.

Thomas said the cities can work on a joint vision, but once the study is complete the cities can still do something different than the recommendation as part of the study. Duffy said the EDA needs to be proactive and he would hate to see this opportunity slip away.

Thomas asked if Hopkins has a vision for this area. Rankin said Hopkins has seen success with Marketplace Lofts in their downtown. Walker replied this area is probably important to Hopkins because it is at the end of Mainstreet.

St. Peter said he would like information on economics and tax base issues. He said he does not want to adversely impact it, but is wondering if there is a more logical way to provide services.

Duffy commented he does not want Hennepin County to go one way on the roadway plans, and the consultant to go another. He said they need to work together.

Walker asked if the consultant is doing a highest and best use land analysis. Rankin commented they are.

5. DECERTIFICATION OF SOILS TAX INCREMENT FINANCING DISTRICT NO. 1 (HEDBERG PROJECT—CEDAR POINT AND CEDAR PASS)

Rankin provided the background information and said this is a city TIF district, rather than an EDA TIF district, which was set-up to help settle a lawsuit over a former dump site. He said the district was set-up in 1994, with a 12-year term. Rankin said the EDA's recommendation is part of the document wrap-up to be completed with the project. He also said the budget needs to be adjusted. Rankin said \$600,000 will be retained in order to continue monitoring the groundwater at the site. He said staff requests the EDA recommend the city council adopt the resolution approving a modification to the TIF plan and decertifying the district.

St. Peter clarified the district is not generating any more TIF dollars and starting with the second half payment this year the money will go back to the county, school district, and city.

Walker asked how \$500,000 was budgeted, but actually \$800,000 was spent. Rankin replied that money is taken out for administrative costs, but cities can also take up to 10 percent for operation and maintenance of the development. He said the \$500,000 was based on original costs. St. Peter added the \$800,000 is actually lower than what it should have been originally.

Duffy clarified the ongoing monitoring costs will be about \$14,000 a year in today's dollars. He asked if there are any indications of problems. Rankin said no and there are monitoring wells on-site.

Walker asked if the monitoring will continue on forever. Rankin said technically yes, and monitoring will continue even if the smallest amounts of pollution appear. St. Peter added the original report did not find real bad types of pollution, but items such as batteries. He also commented as science improves, more pollutants may be found.

Walker asked what the total area of the TIF district is. Rankin replied it is about 24 acres in size. He also added the TIF district has accomplished what it was intended to do.

There was discussion on the original lawsuit.

Thomas moved, Duffy seconded a motion that the EDA recommend the city council adopt a resolution approving a modification to the Soils Tax Increment Financing District No. 1 plan and decertifying the district. All voted yes. Motion passed.

6. STAFF REPORT.

Durbin reviewed the staff report items, including a Glen Lake update, the annual MOU with Metro Transit, transit service ratings, Homes Within Reach, the city-wide open house, September EDA meeting, and upcoming events.

Commissioners indicated they would like a booth at the city-wide open house. They suggested the booth focus on redevelopment areas around the city and have the opportunity for the public to provide input.

7. OTHER BUSINESS.

The next regular EDA meeting was announced as Tuesday, September 19. It was also mentioned there will be a joint study session with the City Council and Planning Commission on Monday, October 16 regarding Opus. More details will be sent out on this at a later date.

3. APPROVE MINUTES FROM JUNE 13, 2006 EDA MEETING (This item taken up out of sequence).

Walker moved, Thomas seconded a motion to approve the minutes of the June 13, 2006 EDA meeting. All voted yes. Motion passed.

8. ADJOURN.

Thomas moved, Walker seconded a motion to adjourn the meeting. All voted yes. Motion passed. The meeting adjourned at 7:25 p.m.



TO: EDA Commissioners

THROUGH: Ron Rankin, Community Development Director

FROM: Elise Durbin, Community Development Supervisor

DATE: September 12, 2006

SUBJECT: Shady Oak Road update

Background

At the August EDA meeting, staff provided an update on the Shady Oak Road project between County Road 3 to Highway 7. The following is an update on the preliminary design layout, and as Commissioners requested, Mark Koegler of Hoisington Koegler Group Inc. (HKGi)--the firm hired by Hennepin County to put together the redevelopment study, will be at the meeting to discuss the redevelopment study more in-depth.

Preliminary Design Layout

Since August 2005, the county and its consulting engineer have put together a preliminary design layout (attached) based on the preferred concept. The Minnetonka and Hopkins City Councils reviewed the preliminary design layout at a joint study session on July 11. The key aspects of the preliminary design layout include:

- A four lane roadway design with a sidewalk on the west and a trail on the east.
- The southern portion of the roadway is shifted very slightly to the west in order to provide better parking and circulation and minimize the partial take acquisitions needed on the east side of Shady Oak Road.
- The Mainstreet intersection will be signalized, with a driveway leg extending to the west. First Street North will be disconnected from Shady Oak Road, and the two Oak Drive Lane intersections will be right-in, right-

- out only. A connection from Mainstreet to Oak Drive Lane is still being discussed.
- To the north, Lake Street Extension and 2nd Street North will be aligned by shifting 2nd Street to the north. On the west side of Shady Oak Road, a new cul-de-sac street will provide access to the homes remaining on the west side, north of Lake Street Extension. Shady Oak Road and Highway 7 will have a realigned intersection. North of Highway 7, the North Service Drive is rerouted to intersect Shady Oak Road further north.

The preliminary roadway layout approval is scheduled for Wednesday, September 20 at 6:30 p.m. at the Minnetonka Community Center. The meeting will be a joint City Council meeting with the Hopkins City Council. Prior to the meeting from 5:30 p.m. to 6:30 p.m. there will be an opportunity for the public to view the layout and ask questions of staff.

Redevelopment Study

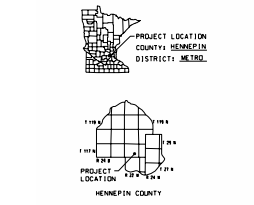
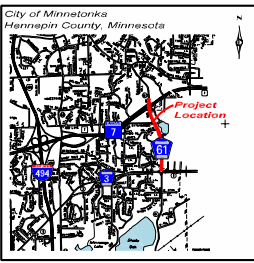
HKGi who conducted the land-use analysis during the concept layout process in 2005, has been hired by Hennepin County to work on a redevelopment study. This study will take the information collected and the direction given by the city councils in the land-use analysis, and along with additional information collection and public input create a redevelopment plan for the Shady Oak Road corridor from Excelsior Boulevard to Highway 7.

The project area boundaries for the redevelopment study will include a primary and secondary study area. The primary study area will focus on areas that have redevelopment potential because of the reconstruction of Shady Oak Road. The secondary study area is comprised of parcels that may redevelop in the long-term.

Throughout the redevelopment study there will be community meetings and joint study sessions with the city councils to review the work completed. Additionally, a relocation consultant will be a part of the redevelopment study to meet with local businesses to address relocation concerns and identify potential relocation alternatives. The EDA will be asked to participate in the redevelopment study and will be invited to future joint meetings. Dates, times and locations of these meetings will be announced as they approach.

Mark Kogler of HKGi will be attending the EDA meeting on September 19 to discuss the redevelopment study more in-depth with Commissioners. Mr. Kogler would like input from Commissioners about visions for this area and other comments that should be taken into consideration as the redevelopment study proceeds.

CSAH 61 Improvements - County Project No. 9112
 From CSAH 3 (Excelsior Blvd) to Hwy 7
Proposed Improvements
 SEPTEMBER 7, 2006



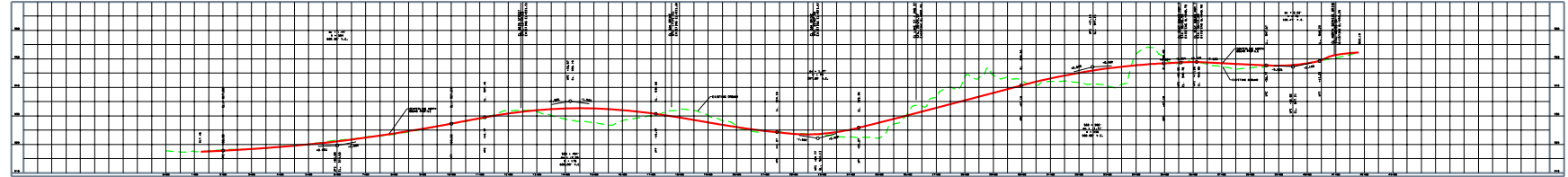
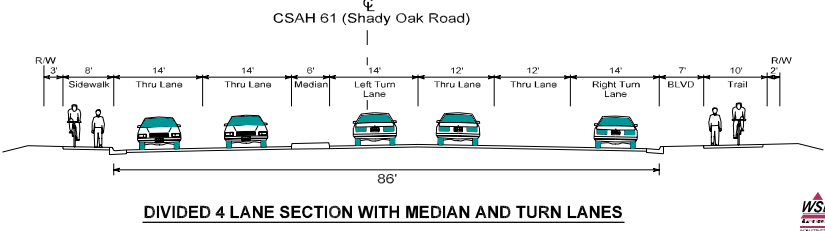
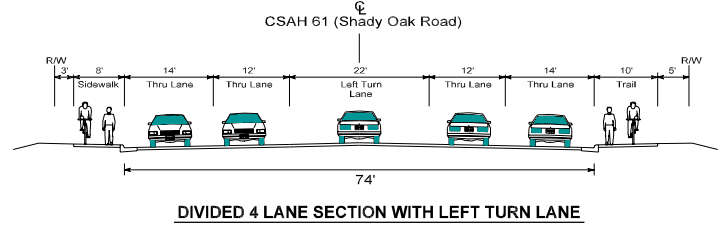
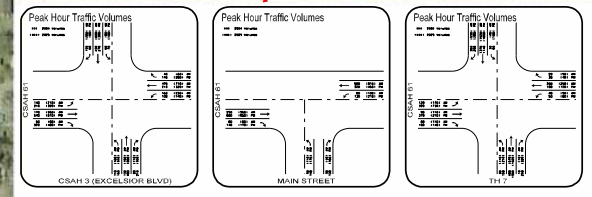
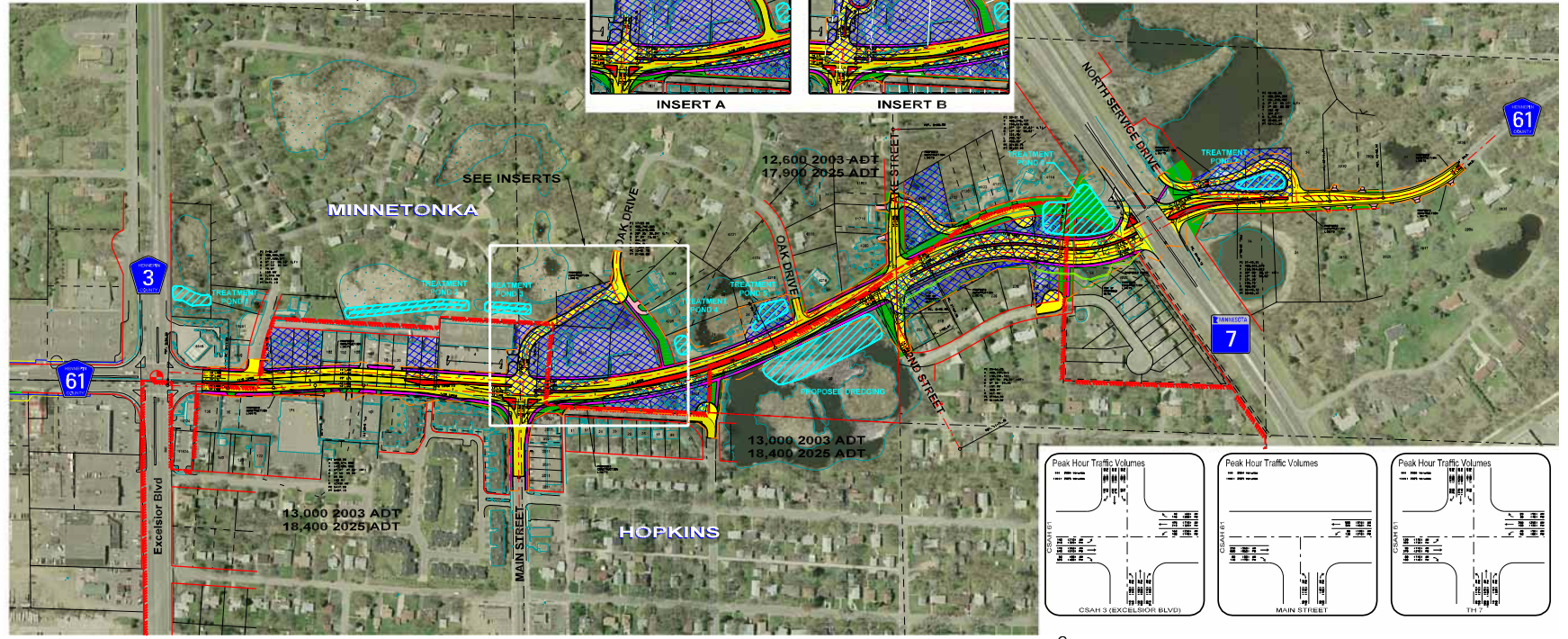
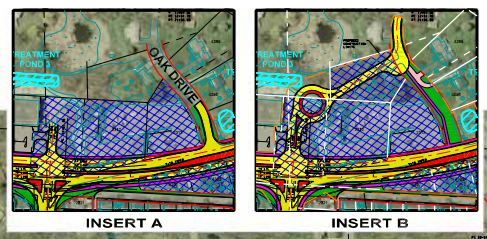
- Legend**
- Proposed Roadway Built Over Impasse Roadway
 - Proposed Roadway
 - Proposed Bridge
 - Proposed Islands / Medians
 - Proposed Roundabout Right
 - Proposed Concrete Walls
 - Proposed Retaining Walls
 - Proposed Driveways
 - Proposed Traffic Directional Arrows
 - Proposed Median Island Paint
 - Proposed Right of Way
 - Existing Right of Way
 - Approximate Construction Limits
 - Total R/W Acquisition
- Note: Typical Commercial Entrance shall have 15' Radius.

Approved by: _____

CSAH NO. 61 LAYOUT NO. 1 PROJECT NO. 9112
 VACINITY OF MINNETONKA
 FROM CSAH 3 (EXCELSIOR BLVD) TO HWY 7
 DATE 9/2/06 SCALE/DOC STAFF APPROVAL

REVISIONS

NO.	DESCRIPTION	DATE





TO: EDA Commissioners

THROUGH: Ron Rankin, Community Development Director

FROM: Elise Durbin, Community Development Supervisor

DATE: September 12, 2006

SUBJECT: Glen Lake Update

On August 29, the city held a neighborhood meeting with the extended Glen Lake area to update residents on several projects that are part of the Glen Lake Redevelopment project or are currently happening in Glen Lake. Attached is a summary of that meeting for your review.

In addition to the updates given at the August 29 meeting, the following are updates on other parts of the project:

- In February, staff submitted an application to Hennepin County requesting \$500,000 in Transit Oriented Development (TOD) funds for the Glen Lake project. The application requested these funds for the installation of sidewalks, streetlights, and a new transit shelter within the area where the redevelopment will be occurring. The Hennepin County Housing and Redevelopment Authority has approved \$225,000 in TOD grant funds for the project. The Hennepin County Board is expected to officially award the grants this fall, with funds available starting in January.
- In June the city submitted to the Metropolitan Council as grant application for \$200,000 in Livable Communities Demonstration Account (LCDA) grant funds. The application requested funds for the addition of more sidewalks. This application has made it through the first round of evaluations, and review will continue throughout the fall.
- Businesses located in the shopping center continue to work with Ken Helvey, the relocation specialist working on the project, to discuss relocation options.

Staff will review the updates from the August 29 meeting and others at the EDA meeting.

Glen Lake Update Presentation Summaries

**August 29, 2006
5:30 – 8:00 p.m.
Minnetonka Community Center**

City Manager John Gunyou welcomed the group, and explained that updates would be provided for both public and private projects, and that each speaker would allow time for questions.

Perry Vetter, City Parks & Trails Manager, explained the park renewal process for Kinsel Park, including provisions for neighborhood involvement. He said the infrastructure for the inoperable fountain in Glen Lake Plaza would be replaced next year. He also described planned repairs to the warming house at Glen Lake Elementary, and explained the revised plan for Glen Lake Park.

Desyl Peterson, City Attorney, explained plans for the new Alano building and Glen Lake Park parking lot. The revised plan no longer incorporates the existing house, and is considerably smaller - reduced from 6,300 square feet to 4,400 in one level that is nine feet lower. Landscaping will screen the building, and a retaining wall was constructed for the Glen Lake Park parking lot.

Pat Cline of Xcel Energy provided an update on their properties. Xcel originally bought the Matt's Auto and Glen Lake TV buildings to expand the substation, but those plans have changed. The properties will be demolished, and Xcel plans to screen the east and north sides of the substation.

Lee Gustafson, City Engineer, discussed the recommendations of the pedestrian committee, which was comprised of 11 representatives from the Glen Lake area. He described the short-term improvements that are currently being implemented, and potential long-term changes to make Glen Lake more pedestrian friendly.

Jo Colleran, City Natural Resources Manager, described the unauthorized tree removal near Glen Lake, and restitution that will be required of the developer. 80 trees were illegally removed from the wetland and buffer area, most of which were box elder. The developer will be required to pay \$100,000 for reforestation of the site and other Glen Lake areas, and criminal charges are likely.

Tom Wartman, developer, apologized for the tree removal, and indicated his intent to cooperate with city reforestation requirements. He plans to relocate the Gold Nugget north of the new grocery store, following construction of the new Exchange building and relocation of businesses from the existing shopping center. The Gold Nugget will reopen spring, 2008.



TO: EDA Commissioners

FROM: Ron Rankin, Community Development Director
Elise Durbin, Community Development Supervisor

DATE: September 11, 2006

SUBJECT: Staff Report for September 19 EDA Meeting

1. Transit Service Ratings in Affordable Housing Needs Study

In April, the EDA reviewed the 2011-2020 Affordable Housing Needs document put together by the Metropolitan Council. At that time Commissioners expressed concern about the level 2 transit service rating the city received. In follow-up with Metropolitan Council and Metro Transit staff, the transit service rating in the affordable housing needs study was based on the 2030 Regional Transportation Plan. Metro Transit and the Metropolitan Council have reviewed the transit service ratings for all communities, and subsequently have changed Minnetonka's transit service rating from a 2 to a 3. With the change in transit service ratings, Minnetonka's 2011-2020 affordable housing needs number drops from 421 to 383 new affordable units. See the attached letter from Metropolitan Council staff about the revision.

2. Dial-a-Ride

On October 1 Dial-a-Ride fares will increase from \$2/one-way or group round-trip to \$3/one-way or group round trip. The fare increases are being made mainly due to increasing gas prices. Senior Community Services is implementing the fare increases throughout all of the systems they operate. Minnetonka's new Dial-a-Ride fares are still comparable to other dial-a-ride systems throughout the metropolitan area. Additionally, in October, a punch card will be offered to Minnetonka Dial-a-Ride riders. The pre-paid punch card will offer a \$3 savings to those who purchase it.

3. Homes Within Reach

On September 19, the Homes Within Reach board will be considering a request by the city to accept the two affordable units at Meadowwoods. These two units will be a twinhome, built as part of the development located off of Ridgewood Road. HWR has been expecting this development since 2003, and staff has been working with HWR on the floor plans and specifications.

HWR also recently purchased a single-family home on Scenic Drive in Minnetonka. This is their 22nd home in Minnetonka (excluding Deephaven Cove, Meadowwoods, and 2 Sanctuary units) and 30th home overall. They have other homes in Eden Prairie, Richfield, St. Louis Park, New Hope, Golden Valley and Wayzata.

A quarterly update will be provided by HWR staff at the October EDA meeting.

4. Southwest Rail Study Alternatives Analysis

The Southwest Rail Study Alternatives Analysis is now entering its final stages. At the end of this month, the Technical Advisory Committee (TAC—made up of staff members) will vote on a recommended alignment and mode. This recommendation will then go to the Policy Advisory Committee (PAC—made up of elected officials) and a public outreach process will begin running through October and November. At the end of November the PAC will vote on a recommended alignment and mode, which will then be passed along to the Hennepin County Regional Rail Authority. If the HCRRA accepts the recommendation, then the study will move into a Draft Environmental Impact Statement. There will be a booth at the Open House in October for the Southwest Rail Study in order to publicize the recommendation.

Upcoming Events

Wednesday, September 20—Joint Hopkins/Minnetonka City Council Meeting
Shady Oak Road Preliminary Design (Roadway only)
6:30 p.m. (Plans on display from 5:30—6:30 p.m.)
Community Room, Minnetonka Community Center

Wednesday, September 27—Sensible Land Use Coalition
“Time to Understand the Market”
11:30 a.m.—1:30 p.m.
DoubleTree Park Place (St. Louis Park)
Please let Elise know by September 19 if you wish to attend

Tuesday, October 10—City Wide Open House
5:00—8:00 p.m.
The EDA booth will be located in the Community Room

Monday, October 16—City Council, EDA, Planning Commission Study Session
Opus Redevelopment
6:30 p.m.
Boards and Commissions Room

Tuesday, October 17—Regular EDA Meeting
6:00 p.m.
Boards and Commissions Room

Attachments

- EDA Project Update
- September 27 Sensible Land Use Coalition program information
- Letter from Metropolitan Council concerning transit service rating
- “ ‘McMansion’ Owners Caught in Housing Bubble” *ABC News* July 30, 2006 (From Bob Walker)
- “Affordable Housing Empire Fuels Developer’s Upscale Aims” *The Wall Street Journal Online* August 22, 2006 (From Peter St. Peter)
- “South Minneapolis condo project has innovative financing options” *Star Tribune* July 29, 2006

Upcoming EDA Meetings
Updated September 11, 2006

Meeting Date Meetings at 6:00pm unless otherwise noted	Item Description	Room/Special Notes
Tuesday, September 19 <i>(Please note the date)</i>	Regular EDA Meeting	Boards and Commissions • Shady Oak Road • Glen Lake Update
Tuesday, October 17 <i>(Please note the date)</i>	Regular EDA Meeting	Boards and Commissions
Tuesday, November 14	Regular EDA Meeting	Boards and Commissions
Tuesday, December 12	Regular EDA Meeting	Boards and Commissions

Items to be scheduled

- Cedar Hills Townhouses Tour

EDA PROJECT UPDATE

Affordable Housing

Livable Communities Act Goals

(The results to date include all affordable units approved by the City Council; however, they may not necessarily be built yet).

	Goals (1995-2010)	Results to Date	Percent of Goals
Owner-Occupied New Construction	180 units	234 units	130%
Rental New Construction	324 units	206 units	63%
TOTAL	504 units	440 units	87%

Project Updates

Project	Total Units	Affordable Units	Update
Sanctuary	23	4	Construction continues on third affordable unit
Meadowwoods	17	2	HWR Board is reviewing the affordable unit—September 19; building plans have been submitted
34 th Circle West	6	1	HWR has accepted the affordable unit—building permit has been issued
Cargill (PORTICO)	25	Up to 19 ADUs	
Cloud 9	164	34	Some units have already closed
Deephaven Cove	28	5	Framing is continuing on buildings
Glen Lake	177	31	
HWR (WHAHLT)			22 Minnetonka units, 30 units total New units in SLP, Golden Valley, Minnetonka
Cedar Hills Townhouses (Rehab)	30	30	Building permit for rehabilitation work to be issued shortly—work to begin October 1

Transit

Dial-a-Ride

- Ridership

Month	Average Daily Ridership
May 2006	40.7 Rides
June 2006	38.3 Rides
July 2006	38.9 Rides

- Fare increases begin on October 1—now \$3.00 one-way for \$3.00 round-trip for a group ride

Other Transit

- Southwest Rail Study Alternatives Analysis—website: www.southwesttransitway.org
 - Study expected to be completed by December 2006 with a recommendation to the Hennepin County board
 - Will have a booth at the Open House
- County Road 73/I-394 Park and Ride Ramp
 - Construction continues

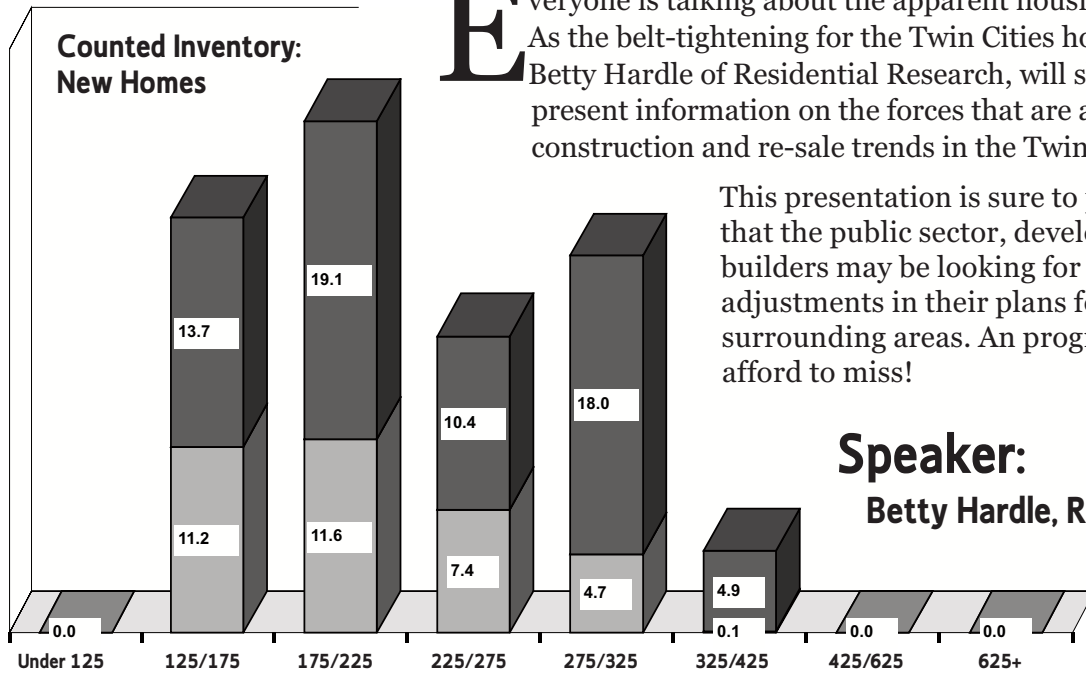
Economic Development/Business

- Minnetonka Boulevard/County Road 101
 - New building being built on west side of County Road 101 between Tennis Club and Minnihaven Shopping Center. A two-story building with coffee shop on first floor and office on the second floor.
- Tonkawood Office Condos
 - Located at northwest corner of Tonkawood and Highway 7



Time to Understand the Market

September 27, 2006



Everyone is talking about the apparent housing market “slow down.” As the belt-tightening for the Twin Cities housing market continues, Betty Hardle of Residential Research, will share her insight and present information on the forces that are affecting shrinking housing construction and re-sale trends in the Twin Cities.

This presentation is sure to provide the data that the public sector, developers, realtors and builders may be looking for to help them make adjustments in their plans for the Twin Cities and surrounding areas. An program your business can't afford to miss!

Speaker:
Betty Hardle, Residential Research

This session will be videotaped.

REGISTRATION OPTIONS

PLEASE RETAIN A COPY FOR YOUR RECORDS.

Time to Understand the Market
September 27, 2006, 11:30 - 1:30 PM

Online

www.sensibleland.org

By Mail

Sensible Land Use Coalition
PO Box 284
Excelsior, MN 55331-9998

Sorry, no POs

Mail form with check

Mail form, pay at the door

	Members	Non-members
Online	\$32	\$42
By Mail (Check)	\$32	\$42
By Mail (Pay at door)	\$42	\$52

Sign up at meeting for Real Estate, Builders, AICP, & AELSLAGID Continuing Education Credit.

Next Program: Oct. 25, 2006
Stadium = Housing, Commerce, Transportation & Entertainment

REGISTRATION FORM

Time to Understand the Market • September 27, 2006

Register: 11:15 AM • Program: 11:30 AM - 1:30 PM

Attendees: _____

Company/Agency: _____

Phone: _____

DoubleTree Park Place
St. Louis Park, MN

Map and directions at
www.sensibleland.org

Sorry, no POs

Important: See reverse side for cancellation policy.

Seating is limited • All reservations must be received in our office no later than 4:00 PM, September 27, 2006.

August 11, 2006

Mr. John Gunyou
City Manager
City of Minnetonka
14600 Minnetonka Boulevard
Minnetonka, MN 55345

Dear Mr. Gunyou:

In February I sent you a letter informing you that the Metropolitan Council was adding to the *Local Planning Handbook* information about the city of Minnetonka's share of the regional affordable housing need for the decade 2011 to 2020 for use by the community to update its comprehensive plan before 2009. In that letter, I indicated your community's share of the regional need to be 421 new affordable units.

Since then, the Council's transit service planning staff has indicated to me that it believes the level of transit service used in the methodology for determining Minnetonka's affordable housing need number for 2011 to 2020 was incorrect. They have indicated to me that Minnetonka would have more accurately been identified as a transit service level 3 community than the level 2 employed by Community Development in the housing needs methodology.

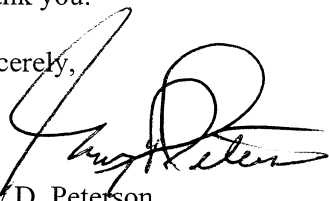
I have recomputed the housing needs number for Minnetonka using level 3 instead of level 2 and, in doing so, the need number drops from the 421 we told you in February to 383 new affordable units.

We will make this change in the needs numbers that are linked to the *Local Planning Handbook* on the Council website, and I apologize for any confusion this may have created.

I will be happy to answer any questions you may have about this adjustment.

Thank you.

Sincerely,



Guy D. Peterson
Acting Director, Community Development Division

cc: Mary H. Smith, Council Member, Council District 3
Ron Rankin, Community Development Director, City of Minnetonka



'McMansion' Owners Caught in a Housing Bubble

As Housing Market Has Cooled, Large Homes Have Become Particularly Difficult to Sell

By **BOB JAMIESON**

IRVINGTON, N.Y., July 30, 2006 — - Doctors Patricia Sheiner and Michael Silver and their three young children loved their \$2½ million dream house in New York's suburban Westchester County.

But they're not living the dream anymore. The family put the 7,000-square-foot home up for sale and moved to a smaller house in December to save on their mortgage payment, utilities and taxes. Now, it's an albatross they can't sell despite dropping the price.

"We bought our other house feeling our other house would sell quickly," Patricia Sheiner said. "And then the market suddenly died. It died."

"It's tough on a daily basis," Michael Sheiner said.

"It's a hardship for anybody to pay two mortgages," Patricia added.

They didn't believe one of the hottest real estate markets in the country would cool off so quickly.

"I'm completely blown away," he said.

"We're totally surprised," she added. "It's a really beautiful house."

Drive around almost any wealthy suburb these days and you'll see a lot of very big houses, so-called "McMansions," under construction everywhere. In fact, in the last 50 years, the average size of new American homes has more than doubled from 983 square feet to 2,434 square feet, according to the National Association of Home Builders.

But the once red-hot housing market has cooled off and the big homes are starting to give a lot of people some serious headaches.

In almost every region of the country, rising interest rates have made big houses hard to sell. Over the last year, interest rates on 30-year fixed mortgages have risen more than a full percent. So for every \$100,000 borrowed, that's an extra \$80 a month.

It's the worst market in a decade.

"A year and a half ago I could list it, hit enter and I'd have three showings within ten to fifteen minutes," said J.P. Endres, president of the Westchester Board of Realtors. "Now I hit enter and I wait."

There is one bright spot in the real estate market. With big houses now out of the reach of many buyers, there is a growing demand for small homes.

Patrick and Barbara Connolly, with a floating rate mortgage, were looking for a smaller house. They want one half the size of their 6,000-square-foot home.

Patrick Connolly looks forward to "lower operating costs, lower maintenance ... lower taxes, lower price."

There are now more people trying to sell houses 5,000 square feet or bigger than there are buyers.

"Reality is coming back," Endres said, "and they are looking for smaller homes. And that's what they're focusing on. ... I certainly see more of an increase in inventory, and that might continue."

As for doctors Sheiner and Silver, realtors say their empty house may be on the market for months more, even if they drop the price again.

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PAGE ONE*Dual Track*

Affordable-Housing Empire Fuels Developer's Upscale Aims

Master of Tax-Credit Deals,
 Stephen Ross Sets Sights
 On Pennsylvania Station

Buying Apartments in Queens

By **ALEX FRANGOS**
 August 22, 2006; Page A1

NEW YORK -- Stephen M. Ross erected the \$1.7 billion Time Warner Center, twin 80-story towers stuffed with offices, shops, a hotel and expensive apartments overlooking Central Park. He is planning to transform downtown Los Angeles with a more-than-\$2.5 billion retail and residential complex, and with a partner, to rebuild a chunk of central Manhattan, replacing both Pennsylvania Station and Madison Square Garden.

Behind his soaring ambitions and colossal budgets is something unusual in the world of commercial real estate: a financial engine based on government-subsidized housing that funds these risky endeavors.



Stephen M. Ross


The Ocean Park apartment complex in working-class Far Rockaway, Queens, is one cog in his machine. The twin brick-and-concrete towers, perched atop a parking garage overlooking the Atlantic Ocean, are typically drab affordable housing from the 1970s. Mr. Ross's real-estate firm, closely-held **Related Cos.**, owns the buildings and collects just \$848 a month for each two-bedroom apartment -- below-market rates that are set by the New York State Housing Finance Agency. Mr. Ross turns a profit because he has mastered the complex business of tax credits that help finance the nation's low-income housing.

Ninety percent of the 37,700 apartments Related owns in 16 states are government-subsidized units. And Mr. Ross's involvement in low- and moderate-income housing extends far beyond that. He founded and is the chairman of **CharterMac**, a publicly traded finance company that sells tax credits to investors and invests in tax-exempt bonds that also help to finance low-income housing. CharterMac has financed more than 400,000 apartments.

This massive low-income housing operation throws off a river of cash for Related that runs fairly steadily through real-estate boom and bust. It helps Mr. Ross bankroll some of the nation's ritziest -- and riskiest -- commercial developments.

"The consistent stream of fee income from the affordable side enables us to take on larger scale market-oriented projects," explains William Witte, president of Related's California operation. For the planned Los Angeles project, for example, Related beat out competing developers in part by plunking down a nonrefundable \$50

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million deposit.

Mixing high-end and low has turned Mr. Ross, 66 years old, into a wealthy man. Through Related, he controls \$11.5 billion worth of property, although Related does not disclose how much debt those properties carry. He lives in a Time Warner Center penthouse and is a major philanthropist. In 2003, he gave \$100 million to the University of Michigan Business School, which bears his name.

These days, with the luxury-condominium market cooling, Mr. Ross's high-low strategy may be put to the test. In June, a much-hyped, \$3 billion Related condo project in Las Vegas in which actor George Clooney planned to invest was scrapped before it got off ground. Related blamed rising construction costs.

Nevertheless, Mr. Ross is forging ahead with preparations for his two most ambitious and expensive projects ever. In its Los Angeles project, Related is leading the planned redevelopment of a dilapidated stretch of Grand Avenue in the downtown area into a mixed-use neighborhood of condominiums, hotels, stores and parks.

Building Blocks

Related Cos. owner Stephen Ross builds luxury developments such as New York's Time Warner Center (right) with profits generated by the company's affordable-housing properties.



Here's how it works:

- Related agrees to buy and manage a property and keep rents 'affordable' for a number of years in order to receive government tax credits.
- Related sells the credits to CharterMac, a public company founded by Ross, which sells the tax credits to investors and pays dividends back to Related.
- Related invests revenues from the affordable property in luxury and mixed-use projects.

Source: WSJ research

And in New York, Related is working with **Vornado Realty Trust**, a real-estate investment trust, on plans to rebuild Madison Square Garden one block to the west, then raze the current home of the sports and entertainment arena. In the process, Pennsylvania Station, Manhattan's underground railroad hub, would become two connected stations, one of them within the historic building that now serves as the city central post office. In addition, there would be tall office buildings, condominiums and retail space. All told, it could cost more than \$7 billion. "I've never been involved with anything that would have that much impact," says Mr. Ross.

Trained as a tax lawyer, Mr. Ross realized years ago there was money to be made though tax incentives created by the federal government to produce affordable housing. Although the details of government programs have changed over the years, their premise has stayed the same: private developers will build and preserve affordable rental housing if they are given adequate tax breaks.

Currently, the federal government distributes \$5 billion in affordable-housing tax credits each year to private developers who agree to keep rents artificially low for periods ranging from 15 to 40 years. The housing is reserved for tenants earning no more than 60% of an area's median income. State housing agencies administer the credits.

The developers, however, typically don't use the credits to offset their own taxes. They sell them to syndicators, who bundle them and sell them to investors looking to offset their own tax bills. Syndicators charge fees to these investors, who are mostly large financial institutions. Developers use the money from selling the credits to build or renovate the low-income housing.

The tax-credit business is sufficiently complex that few real-estate developers handle it themselves, and few syndicators, for their part, build apartments. "Most syndicators don't want to get their feet muddied tromping around on bare dirt," notes John McIlwain, senior resident fellow at the real-estate trade group Urban Land Institute, who spent 20 years as a lawyer in the tax-credit world. "By the time you figure out the tax-syndication business you deserve free psychiatric care."

Mr. Ross, however, does both. Related builds affordable housing, buys and renovates existing buildings, and manages the properties. CharterMac, which is 14%-owned by Related, invests in such housing to secure tax credits, generates fees by syndicating the credits to investors, and invests in tax-exempt bonds sold to finance such housing. CharterMac also provides mortgages on both affordable and market-rate apartment projects. In 2005, it reported net income of \$59 million on \$295 million in revenue.

Mr. Ross grew up middle-class in Detroit and Florida. His uncle, the late Max M. Fisher, a billionaire oil and real-estate investor, paid his college tuition. After completing law school, Mr. Ross went to work on Wall Street as a finance executive. While working at Bear Stearns Cos., he says, he put together a business plan for what he envisioned as an affordable-housing company that would both build apartments and handle tax-credit financing. The finance side would generate steady income, he explains, but "the big picture was in development."

Bear Stearns declined to fund his plan, so in 1972, Mr. Ross started Related Housing Co. By the early 1980s, he had built 15,000 apartments and was a leading syndicator of tax credits. He spun his profits into more-lucrative commercial developments. In suburban New York, he built offices for **CA Inc.**, **International Paper Co.** and Nestlé SA.

He expanded his affordable-housing business to Florida, starting Related Group of Florida with housing entrepreneur Jorge Pérez. Today, that company, which is majority-owned by Mr. Pérez, is the largest developer of apartments in the state. Messrs. Ross and Pérez are also partners in Related investments in Las Vegas and California.

Mr. Ross pushed employees hard. After a 1982 skiing accident left his leg in a cast for nine months, he barked at underlings from a couch in his office. One evening a few years later, he emerged from a meeting to find the office apparently empty. "If anyone is still here, I'll give you \$500," he shouted, according to both Mr. Ross and an employee. Dozens of heads popped up from the cubicles. "It cost me," he recalls.

In the 1980s, Mr. Ross began to combine affordable and luxury units in the same buildings, utilizing a new federal program known as 80/20. In exchange for reserving 20% of apartments for low-income tenants, Related was allowed to sell tax-exempt bonds. Mr. Ross's first such building, on the fringe of New York's Upper East Side, rented quickly and remains nearly 100% occupied.

He discovered that luxury projects were considerably riskier and more difficult. He spent the 1980s trying unsuccessfully to build an apartment complex called Riverwalk on piers in Manhattan's East River. Eventually, the city canceled his permit.

When commercial real-estate markets collapsed in the early 1990s, Mr. Ross had \$120 million in loans outstanding on speculative projects. Banks began calling for repayment, and Mr. Ross canceled several condominium projects. If the loan problems had become public, investors might have steered clear of Related's tax-exempt deals, threatening its otherwise stable affordable-housing operations, according to two people familiar with the matter.

"How did we survive?" says Mr. Ross. "I had the other sources of income coming in from my financial-services business, the syndication doing all these tax-credit deals." It paid Related's overhead while he looked for additional money to keep the banks at bay. Eventually, he got a large cash infusion from several investors, including his wealthy uncle, Mr. Fisher, and he restructured the loans.

"My whole philosophy is totally different since then," says Mr. Ross. "We generate enough cash flow to put in to the projects internally from our profits...I control my destiny." He says Related now carries no debt other than short-term construction loans and nonrecourse mortgages, secured only by specific properties and not by Related's other assets or by Mr. Ross personally.

In order to obtain such financing, developers must put up significant equity. For the mammoth Time Warner Center, Related relied on more than the profits of its affordable-housing operations and other businesses. Mr. Ross tapped Apollo Real Estate Partners as an equity partner.

Income from the subsidized-housing business plays a vital role in the large-scale developments. "We've been working on large projects in and around L.A. for three years," says Mr. Witte, who heads Related's California unit. "We've had to carry the staff that are working on those. We have the financial capacity to do that in large part because of the success we have on the affordable side...All this comes into play when negotiating with lenders."

Following Related's near collapse, the commercial real-estate market once again boomed. Much of Related's projects since then have been high-end, including CityPlace in West Palm Beach, a massive mixed-use complex; Time Warner Center, and dozens of luxury condominium towers around the country. In recent years, these luxury projects have contributed a significant portion of Related's profits.

On the affordable-housing side, Mr. Ross was confronted with a separate set of problems. Related had begun selling tax-exempt bonds to investors through Prudential Securities. In a class-action suit filed in Manhattan federal court, investors accused Prudential, Related, and several other companies that sold limited partnerships of improperly characterizing bonds as more liquid than they in fact were. To settle the suit in 1997, Related paid \$2 million and agreed to take its bond funds public so that investors could sell their investments more easily.

But that didn't end the problems. Related began collecting fees as outside manager of the newly public company, which became CharterMac. Investors didn't like that either. They were wary of having a private company manage a public one, which they saw as a conflict of interest, according to a 2002 CharterMac filing with the Securities and Exchange Commission. A second restructuring ensued, which shifted the management of CharterMac from Related to CharterMac itself. In exchange for the lost revenues, Mr. Ross received \$50 million and CharterMac stock then valued at \$181 million. Four other Related executives received \$83 million of stock.

Before the deal was put to a shareholder vote, some shareholders sued in New York state court, claiming the deal amounted to Mr. Ross -- as both the principal owner of Related and the chairman of CharterMac -- negotiating with himself. CharterMac's independent directors had handled the negotiations for that company. One of those directors, Arthur Fisch, says the deal resulted from a "brutal negotiation." He insists that Mr. Ross "did not have any undo sway, certainly not over me." To settle the suit, Mr. Ross and his four Related partners agreed to vote the same way as the majority of outside shareholders. Those shareholders voted in favor of the deal.

These days, Related receives about \$24 million a year in dividends -- most of it tax-free -- from its CharterMac stock holdings. But that is only part of the income it squeezes out of its investments in glamourless buildings such as the Ocean Park apartment complex.

In June 2005, Related agreed to buy Ocean Park for \$34.5 million from Cord Meyer LLC, a small Queens real-estate company. In exchange for its promise to keep the apartments affordable for 40 years, Related received \$11 million in federal tax credits, which it then sold to CharterMac. To raise the rest of the money needed to buy and renovate the building, Related received authorization from the New York State Housing Authority to sell \$38 million in tax-exempt bonds.

Related and CharterMac earned money from the deal in several ways. Related took \$2.2 million of the money it raised as a fee to manage the renovation of the property.

A CharterMac spokeswoman declines to say what the company's fee was for selling the Ocean Park tax credits to investors, but says it typically takes around 4% to 5% on such deals. CharterMac charges investors a separate fee to guarantee the tax credits if something bad happens to the property.

During the past year, Ocean Park tenants got new windows, stoves and refrigerators. Mark Carbone, president of Related's affordable-housing unit, says the property "will just purr along" for the 40 years Related has pledged to keep it affordable. And when that commitment runs out, the two buildings overlooking the Atlantic may turn into even more lucrative beachfront property.

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South Minneapolis condo project has innovative financing options

A new condominium project in south Minneapolis is ready for occupancy and has several innovative financing options for home buyers. Several units are available through the City of Lakes Community Land Trust, which preserves affordable housing in the Twin Cities by using a variety of subsidies to help buy down the cost of the project and by establishing a long-term, limited appreciation schedule.

The project, called 3310 Nicollet, has 35 one- and two-bedroom condos that are within walking distance of Wells Fargo Home Mortgage, Allina Healthcare and Children's Hospital. There's underground parking and a guest suite and new buyers will get a six-month membership to the nearby YMCA.

Prices start at \$157,900 for a one-bedroom, one-bathroom unit and go up to more than \$280,000 for a two-bedroom, two-bathroom unit, but special financing and down payment assistance programs are available.

The City of Lakes Community Land Trust, for example, is offering special financing on seven two-bedroom units that are priced at \$135,000. Buyers of those units must meet income guidelines: A family of one cannot earn more than \$27,500 and a household of four cannot earn more than \$39,250. For information and details about those land trust units, go to www.clct.org.

Minneapolis is offering assumable mortgages on the one-bedroom units, which are priced at \$98,400 without underground parking.

The project was a joint effort by the Prima Land, Minneapolis, the Lyndale Neighborhood Development Corp. and City of Lakes Community Lake Trust.

JIM BUCHTA

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