Innovations in Community Development is a series of descriptions of effective community revitalization programs developed by Enterprise in partnership with nonprofit organizations, financial institutions, local governments and corporations. Enterprise is a national nonprofit dedicated to improving affordable housing and life opportunities for low-income families and communities. You can find these and other resources to support local revitalization efforts online at www.enterprisecommunity.org/resources.

CREATING A COMMUNITY WITH A MIX OF INCOMES

Public and private sector partners in Minneapolis replace dilapidated public housing units with a mixed-income community.

Summary

For many years, much of the affordable housing in America was designed and built in ways that exacerbated the isolation that accompanies poverty. By the 1970s and 1980s, city planners and residents alike were frustrated with the increase in crime and decline in quality of life that was occurring within these pockets of highly-concentrated poverty. Concurrently, planners and community developers were gaining a greater understanding of the value of mixing income levels within large planned communities.

In the early 1990s, these two factors came together in Minneapolis, and under the terms of a legal consent decree (the result of a lawsuit filed against the Minneapolis Public Housing Authority by the residents of four public housing buildings: Sumner Field, Olson, Lyndale and Glenwood Homes), the city of Minneapolis and developer McCormack Baron Salazar created an innovative plan for a new community to be called Heritage Park. It would serve very low to high income households, provide a mix of housing types—from garden-style apartments to single-family luxury homes—and offer homes for sale and for rent. In addition, the affordable housing would be indistinguishable from the market-rate housing. It would be the first large mixed-income residential development in Minneapolis.

Upon completion of the last of the development’s four phases, 55 percent of the housing at Heritage Park will be affordable to households earning less than 80 percent of the area median income (AMI). Heritage Park will provide 102 units of public housing for the elderly, 440 units of rental housing and 360 units for sale. As required by the 1992 legal consent decree, 45 percent of the rental units will be public housing. An additional 20 percent will be affordable to households earning less than 60 percent of the AMI, financed through the Low-Income Housing Tax Credit. In addition, 30 percent of the total number of housing units built for sale will be affordable to those earning less than 80 percent of the AMI.
Program Description and Implementation

Located one mile northwest of downtown Minneapolis, the Heritage Park development is on the former site of Minneapolis’s first public housing development, Sumner Field Homes, built in 1935. Two decades later, Sumner Field’s neighbors, Olson, Lyndale and Glenwood Homes were added to the site. In 1992, residents of these four developments sued the Minnesota Public Housing Authority, alleging they had been racially isolated. The resulting legal consent decree required the housing authority to demolish the four dilapidated structures, build replacement housing throughout downtown Minneapolis and the suburbs, and issue 900 new Section 8 vouchers for use in non-concentrated neighborhoods.

Focus group participants set goals for the transformation of the Heritage Park site into a stable mixed-income neighborhood that would lessen the concentration of poverty, provide incentives for greater self-sufficiency of its low-income residents, and support the viability of the neighborhood by connecting it with the surrounding community. Near Northside residents also wanted meaningful opportunities for community participation in the decision-making process, higher density, housing units for residents earning between 30 percent and 50 percent of the AMI, priority for relocated families to move back into new public housing units, and replacement of the same number of 3-, 4-, and 5-bedroom units as previously existed. These recommendations were developed into an action plan that was approved by the Minneapolis city council in 1997.

In 1998, the Near Northside Implementation Committee, which includes representatives from both the public and private sector, issued a request for proposals in order to choose the lead developer for Heritage Park. In July of 1999, on the recommendation of the Near Northside Implementation Committee, the city council named McCormack Baron Salazar, in partnership with Legacy Management and Development Corporation, as the lead developer.
During this period, some residents and community advocates became unsatisfied with the pace of the progress, and actively protested the demolition of the Glenwood and Lyndale public housing developments. They argued that the construction of replacement units was not keeping up with evictions, and therefore the 300 Glenwood and Lyndale units should be rehabilitated for temporary use. Protests continued throughout the year, delaying the demolition of the buildings and bringing media scrutiny to the process, but the protests were ultimately not successful in preventing the eventual demolition.

In spite of the ongoing protests, progress did continue. The next step was to create a master plan for the neighborhood based on the action plan. To ensure that the concerns of all involved were addressed, the design team, led by Urban Design Associates and SRF Consulting Group, held public meetings, working sessions with key groups, and a one-week design workshop. From these initiatives, the Near Northside Master Plan was created. The plan revolves around three key design concepts: a mix of housing types, an effective street network and a sustainable parks and open space system.

Following both New Urbanist design principles and the patterns of development in many older Minneapolis neighborhoods, Heritage Park integrates several types of housing, including garden-style apartment buildings, townhouses, duplexes and single-family homes. Urban Design Associates created a pattern book for builders that established the design guidelines for all for-sale units in Heritage Park. The pattern book offers builders a choice of four types of design: Classic, European Romantic, Victorian and Craftsman.

Within Heritage Park, the network of streets will complement the park system and link the community to adjacent neighborhoods and nearby goods and services. These reconfigured streets will create a network of traditional, residentially-scaled blocks in Heritage Park, giving it both the look and feel of a traditional Minneapolis neighborhood.

**Rental Housing**

All 440 rental housing units in Heritage Park were built by the project’s master developer, McCormack Baron Salazar, a for-profit developer that focuses on economically-integrated urban neighborhoods around the country. McCormack Baron Salazar worked in partnership with Legacy Management and Development Corporation, a locally-based minority-owned housing developer.

Of the 440 rental units, 200 are the public housing required by the legal consent decree, 90 were built using tax credits and are affordable to households earning less than 60 percent of the AMI, and the remaining units have market-rate rents. McCormack Baron Salazar also developed 102 units of public housing for elderly residents. With the exception of the public housing for the elderly, which is owned and managed by the Minneapolis Public Housing Authority, McCormack Baron Salazar owns and manages all of the rental housing in Heritage Park. According to the
terms of the lease, after 60 years all of the rental properties will revert back to the Minneapolis Public Housing Authority.

Because there are no comparable developments in the immediate area, McCormack Baron Salazar based rents for the market-rate units on the rental prices of developments near downtown Minneapolis and the Mississippi River. Initially, it set market-rate rents slightly lower than these comparables, but has since increased them and the rental prices are now fully in line with market-rate development rents. As of March 2006, rents for the market-rate units ranged from $790 to $1,450, and rents for the Heritage Park housing built using Low-Income Housing Tax Credits were running between $650 and $965. As determined by HUD, the public housing residents in Heritage Park pay 30 percent of their income for rent. Therefore, the rent for these units varies based on the resident’s income.

For-Sale Housing
In 2003, the city selected Heritage Housing LLC to serve as the developer of Phases I/II (out of IV) of the for-sale housing in Heritage Park. Heritage Housing LLC was formed by the Sienna Corporation, which plans, develops and contracts residential and commercial properties; Thor Construction, the largest African-American owned construction company in the upper Midwest; and the Northside Residents Redevelopment Council, a nonprofit community-based organization. Heritage Housing LLC’s responsibilities have included creating a site plan, selecting the builders (subject to city approval), ensuring that the minority employment goals are met and overseeing the marketing of the Phase I/II for-sale units.

When completed, Phases I/II of the for-sale housing in Heritage Park will consist of 74 single-family homes and 97 multifamily homes. Of these, 15 percent will be affordable to households earning less than 60 percent of the AMI and an additional 15 percent will be sold to households earning between 60 and 80 percent of the AMI. Builders set purchase prices at the home’s appraised market value and then rely on layered financing to make them affordable to income-qualified buyers. As of March 2006, the prices ranged from $229,000 to $635,000, depending on housing type and lot size.

Under contract with Heritage Housing LLC, the Center for Energy and Environment underwrites second mortgages for income-qualified buyers. There are no resale restrictions attached to any of these second mortgages. Homebuyers at Heritage Park are, however, encouraged to sell to moderate-income families by allowing the subordinate mortgage to be assumed by another income-qualified buyer, thus forgiving all interest to date. If, however, the unit is not sold to an income-qualified household, the subordinate loan must be paid along with 2-percent interest.

Partners
A number of public and private sector partners have been instrumental in the design and development of the Heritage Park community:
The city of Minneapolis acts as project manager for Heritage Park, providing technical assistance to partners; managing public improvements, including the creation of open space and the building of necessary infrastructure; and assembling the rental and for-sale sites.

The Minneapolis Public Housing Authority leases the land for the rental housing to the lead developer and will sell a majority of the land in the ownership portions of Heritage Park. The housing authority also oversees all necessary environmental remediation.

Additional public partners include: the Environmental Protection Agency, the Minnesota Department of Employment & Economic Development, the Metropolitan Council, the Hennepin County Housing & Redevelopment Authority, the Hennepin County Transit & Community Works, the Minnesota Housing Finance Agency and the Family Housing Fund.

For-profit developers and builders who have worked or will work on the Heritage Park community include: McCormack Baron Salazar, Legacy Management and Development Corporation, Heritage Housing LLC, the Mississippi Pathway Development Company, Homes by Three Rivers, Metro Prairie Homes, M.W. Johnson Construction, Premier Homes, Thor Construction, BrightKEYS and Centex (proposed as of March 2006).

Participating nonprofit organizations include: Habitat for Humanity, the Northside Residents Redevelopment Council, the Greater Metropolitan Housing Corporation, the Powderhorn Residents Group and the Center for Energy and Environment.

Architects and design consultants who have worked on the Heritage Park community include: Urban Design Associates, the SRF Consulting Group, La Quatra Bonci Associates, LHB, Elness Swenson Graham, Bauknight Associates, Cermack Rhodes and Rich McLaughlin.

**Financing**

The Heritage Park development is financed through a combination of public and private sources. The rental portions of the community were funded through:

- Public housing funds from HUD ($32.2 million, plus a $14 million HOPE VI grant for the elderly housing)
- Private equity and debt totaling nearly $42 million, including funds administered through the Low-Income Housing Tax Credit program
- Gap funding provided by the Minnesota Housing Finance Agency ($4.4 million), the city of Minneapolis ($4.3 million), Hennepin County ($450,000) and local foundations ($600,000)

The market-rate, for-sale units are all privately funded. At first, builders experienced difficulty securing financing for the construction of the luxury single-family homes. There were no market comparables, and lenders were concerned...
that the homes would not sell for the estimated market value. Heritage Housing LLC convinced some local banks to support the project and then directed builders to these banks.

As of March 2006, Heritage Housing LLC had raised $1.5 million in subsidy funds for income-qualified buyers. These subsidies are from various sources and include:

- Mortgage revenue bond and Enterprise Zone funds from the city
- Funds from the state housing finance agency

Heritage Housing LLC estimates that it will need to raise $1 million more to provide enough subsidies to meet the required number of homes to be sold to buyers earning between 60 to 80 percent of the AMI during Phase I/II. Habitat for Humanity and the Powderhorn Residents Group individually raised the funds they needed to subsidize the affordable homeownership units they built.

The city of Minneapolis also received funding from several sources for the public infrastructure component of the project, including numerous grants and:

- Funds from special assessments levied against rental property owners
- Proceeds from the creation of a tax increment financing district
- Bond proceeds from the state, county and federal governments
- A $10 million allocation from the federal government

**Project Status and Accomplishments**

Construction of the rental units began in the fall of 2001 and was completed in February 2006. As of March 2006, the first three phases of rental units were 100 percent leased, as well as 87 percent of the Phase IV units. And 53 of the occupied units were being rented by former residents of Sumner Field, Olson, Lyndale and Glenwood Homes.

The dramatic physical transformation of the Heritage Park site has overcome much of the stigma previously attached to the area. Prospective residents are attracted by the community’s location and easy access to downtown Minneapolis in addition to the quality of the rental units.
Rental Housing Breakdown

<table>
<thead>
<tr>
<th>Units</th>
<th>Public Housing</th>
<th>Tax Credit</th>
<th>Market Rate</th>
<th>Total</th>
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<tr>
<td></td>
<td>1 BR</td>
<td>2 BR</td>
<td>3 BR</td>
<td>4+ BR</td>
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<tr>
<td></td>
<td>102</td>
<td>91</td>
<td>78</td>
<td>31</td>
</tr>
<tr>
<td></td>
<td>48</td>
<td>32</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>33</td>
<td>100</td>
<td>17</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>183</td>
<td>223</td>
<td>105</td>
<td>31</td>
</tr>
</tbody>
</table>

*This total includes 102 units of public housing for the elderly.

Construction of the for-sale units started in February 2004. As of March 2006, 17 single-family homes had been constructed; 13 of these had been sold. An additional four of the single-family homes that had not yet been completed had also been sold. Twenty-four multifamily homes had been built as of March 2006, and four of these had been sold. Construction of the Phase I/II for-sale homes is expected to be complete in 2007. As of March 2006, Centex Corporation was negotiating a development agreement with the city for Phase III/IV. The Minneapolis region’s housing market slowed in the time between Heritage Park’s conception and the completion of the first market-rate for-sale housing. This caused the initial units to be more difficult to sell than originally anticipated. By March 2006, however, the market was picking up and builders anticipated more prospective buyers as Heritage Park became more populated.

Habitat for Humanity anticipates building up to 55 units at Heritage Park for families earning between 30 and 50 percent of the AMI. Payments on the first mortgage for a Habitat home do not exceed 30 percent of the purchaser’s gross income. Habitat then provides an interest-free, deferred second mortgage for the remainder of the purchase price. Habitat retains the right to purchase these homes if the owner decides to sell during the term of the 30-year second mortgage. If Habitat chooses not to buy the home, it may be sold at market rate without penalty to the seller. In either case, if home buyers choose to sell a home within the first five years of their mortgage, they must pay Habitat 100 percent of the market appreciation value (reduced to 75 percent during years six to 30).

As of March 2006, the Mississippi Pathway Development Company (the builder for the Northside Residents Redevelopment Council) had constructed four units for families earning 60 to 80 percent of the AMI. Mississippi Pathway planned to sell these homes for the appraised market value ($297,000), and refer potential buyers to Heritage Housing LLC for second-mortgage financing. There are no resale restrictions on these homes. The Powderhorn Residents Group is planning to build two condominium buildings that will include five units affordable to families earning between 60 and 80 percent of the AMI. The organization will use HOME funds to subsidize the affordable units.
Other than nine units built by Mississippi Pathway and Powderhorn Residents Group, Heritage Housing LLC has not designated specific units as affordable to families earning 60 to 80 percent of the AMI. Instead, the developer has closely monitored the number of market-rate homes purchased by income-qualified households in order to ensure that it will meet the 15 percent requirement for this income range. As of March 2006, income-qualified households had purchased 4 of the 12 units sold (not including Habitat for Humanity units).

**For-Sale Housing Breakdown**

<table>
<thead>
<tr>
<th># Units Completed or Under Construction (as of May 2006)</th>
<th>Above 80% of AMI</th>
<th>Under 60% of AMI</th>
<th>60-80% of AMI</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single-family (small lot)</td>
<td>13</td>
<td>6</td>
<td>5</td>
<td>24</td>
</tr>
<tr>
<td>Single-family (large lot)</td>
<td>4</td>
<td>-</td>
<td>-</td>
<td>4</td>
</tr>
<tr>
<td>Duplexes</td>
<td>-</td>
<td>4</td>
<td>-</td>
<td>4</td>
</tr>
<tr>
<td>Townhouses</td>
<td>20</td>
<td>4</td>
<td>-</td>
<td>24</td>
</tr>
<tr>
<td>Condominium</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0</td>
</tr>
<tr>
<td>Total Completed or Under Construction</td>
<td>37</td>
<td>14</td>
<td>5</td>
<td>56</td>
</tr>
<tr>
<td><strong>Total Units Planned (Phases I-IV)</strong></td>
<td><strong>250</strong></td>
<td><strong>55</strong></td>
<td><strong>55</strong></td>
<td><strong>360</strong></td>
</tr>
</tbody>
</table>

**Infrastructure and Amenities**

As of March 2006, Heritage Park included nine playgrounds for small children, several community gardens and one of the two planned parks (the second park was scheduled for completion at the end of summer in 2006). Bike paths are planned for the new north-south boulevard, giving residents both with and without cars easy access to nearby community resources, including the local library, a farmer’s market and community centers. A large community room is also available to residents within Heritage Park.

Heritage Park residents can make their voices heard through a neighborhood association and a homeowners association. The goal of the neighborhood association is to bring renters and homeowners together to deal with challenges and opportunities that affect the entire community. The homeowners association will deal with issues that relate only to the homeowners.
Ownership units at Heritage Park house residents with a range of incomes in a variety of building types. Pictured here are a market-rate single family home, market-rate town houses, and an affordable single family home.

Key Lessons

**Avoid the concentration of affordable units.**
The city and developers created a plan that interspersed affordable units throughout the development. The rental apartment buildings are built on different blocks than the single-family homes. However, affordable rental units are not separated from market-rate rental units by building, wing, floor or street; and the affordable homes for sale are integrated with the market-rate homes for sale. The single-family luxury homes are the only exception; they are located on a stretch of the development that contains no affordable homes.

**Ensure that builders have the necessary resources to meet design requirements.**
The builders of the for-sale housing in Heritage Park have experienced some difficulty meeting the requirements of the design pattern book. In some cases, because the builder’s standard housing designs did not fully meet the city’s design requirements, the builder had to incur additional costs to adapt its existing housing designs to fit in Heritage Park. In addition, using pre-manufactured homes was not an option for the same reason.

As a result of these issues, making the required design changes can add as much as 20 percent to the builders’ construction costs. One possible solution would be to coordinate with the city or local architectural firms to provide builders with pro bono or reduced-price architectural services to help them alter their existing designs and comply with the design requirements for the project.

By avoiding a concentration of affordable units and requiring that all housing (regardless of price) meet the same design requirements, it is impossible to distinguish between affordable, public and market-rate housing in Heritage Park.
**Ensure that the planning and resources are adequate for infrastructure needs.**
The city of Minneapolis agreed to perform all of the infrastructure work needed for Heritage Park. However, the work was more expensive, intensive and time-consuming than originally anticipated. One way to prevent this issue in future developments would be to engage infrastructure engineers in the project design process and to estimate the infrastructure costs upfront.

The timing of the infrastructure work is critical to avoid additional expenses. In Heritage Park, the street infrastructure was in place before the single-family homes were constructed. As a result, when crews connected the homes to the water lines, they had to break through already-constructed curbs and gutters, which then had to be repaired. This could be avoided by having developers do more of the infrastructure work, since they are often better equipped to control the timing and the coordination of the infrastructure tasks.

**Determine the amount and sources of subsidy for the affordable homes in the planning phase.**
Each of the affordable single-family for-sale homes at Heritage Park requires about $100,000 in subsidy in order to be affordable to households earning between 60 and 80 percent of the AMI. Second-mortgage programs from the city and the state help low- to moderate-income households bridge the gap between the fair market value of the homes and the mortgage they can qualify for. Because the homes are priced at fair market value, these programs must often be layered. This has made it necessary for Heritage Housing LLC to continually raise funds for homebuyer subsidies. This issue can be avoided in future developments by determining upfront exactly how much money will be needed in subsidies and identifying the sources of these funds.
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