



Brainerd Oaks Development Area

City of Brainerd & Crow Wing County HRA

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Urban Land Institute Minnesota

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ULI has a long history of providing unbiased, market-based solutions and best-practice advice on land use and building resilient and competitive communities through Advisory Services. At ULI MN, three advisory service options are offered to policy leaders. Each option, including the Technical Assistance Panel (TAP), engages ULI MN real estate professionals who volunteer their time and talent to contribute their wisdom and expertise.

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Technical Assistance Panels (TAP) of the Urban Land Institute Minnesota District Council (ULI MN) are convened at the request of a community to address specific development challenges, such as site redevelopment options, downtown revitalization or environmentally sound development in an area.

TAPs consist of nonpartisan experts who offer recommendations, not mandates, based on the issue at hand and the expertise of the panel. The goal is to offer ideas for realizing local and regional aspirations. The working session's focus helps synthesize local input with panel expertise to form a final set of recommendations.

In this case, the Crow Wing County Housing and Redevelopment Authority (HRA) asked the panel to offer observations and recommendations concerning the Brainerd Oaks project in east Brainerd. Brainerd Oaks is a single family subdivision that was conceptualized and platted pre-recession. Although some of the lots had been developed with single family homes, the vast majority of the lots remain undeveloped without a prospect of development in the foreseeable future.

A TAP was assembled that included an interdisciplinary panel of experts from the commercial, industrial and housing real estate sectors as well as the placemaking, finance, and development fields. The TAP purpose is to evaluate data, site conditions and future redevelopment readiness and to provide local policy leaders with recommendations to guide not only future land uses for the site, but also future partnerships with developers.

The Panel

The panelists are ULI MN 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.

Panel

John Shardlow, Stantec, **TAP Chair**

Ben Baratto, Baratto Brothers Construction

Bill Beard, The Beard Group

Chris Eng, Northland Securities

Deanna Hemmesch, Central Minnesota
Housing Partnership

Rod Osterloh, Close Converse

ULI Minnesota Staff

Cathy Bennett

Gordon Hughes

“With the assistance of a ULI MN Technical Assistance Panel (TAP), our city has moved forward on a key redevelopment project that expands rental housing options for residents. The TAP provided immeasurable assistance and was vital in guiding the strategic direction for the property.”

Sandra Martin, Mayor, City of Shorview

The Panel's Charge

How can the Crow Wing County HRA, in partnership with the City of Brainerd, Brainerd HRA and Crow Wing County get a residential subdivision (Brainerd Oaks) back on track that was conceptualized and invested in just prior to the Great Recession? That was the big-picture question that the Crow Wing County HRA and the City of Brainerd posed for an Urban Land Institute Minnesota Technical Advisory Panel in January 2016. Specifically, the TAP was asked to react to the current development plan for Brainerd Oaks and evaluate the impediments to future success.

During the half day workshop, the panel's real-world expertise illuminated both the challenges and opportunities presented by Brainerd Oaks and, in doing so, developed concepts that may lead to the eventual success of the project.

The six-member TAP panel brought together real estate professionals from both the Twin Cities and the Brainerd Lakes Area. At the conclusion of their work, the panel reported their preliminary findings to an assembled group from the HRA, the County and the City of Brainerd. The ensuing discussion not only afforded an opportunity for policy leaders to hear the panel's recommendations, but also provided a needed forum for representatives of different stakeholder groups to explore ways to cooperate to resolve the challenging issues associated with Brainerd Oaks.

BRAINERD OAKS March 2015



Brainerd Oaks - The Current Situation

The Brainerd HRA purchased the 47 acre Brainerd Oaks site in 2003 for \$3.3 million using housing revenue bonds. The following year, the site was subdivided into 96 residential lots and two commercial lots. The objectives of Brainerd HRA and the City were to provide owner-occupied, market rate single family homes in Southeast Brainerd, to help increase the number of homeowners in the City of Brainerd, to improve the property tax base in the City and to develop a neighborhood with sidewalks, landscaping and parks. Housing price points between \$230,000 and \$330,000 were targeted to help add a market rate housing component in Southeast Brainerd, redirecting households that might otherwise purchase a home in Baxter or elsewhere outside of the City of Brainerd and to increase the future tax base for the City.

The Brainerd Oaks development concept, known as coving, incorporated non-linear streets, landscaping, sidewalks and public greenspace. Approximately one half of the subdivision was planned for development with the remaining acreage devoted to woods and wetlands. The Brainerd Oaks lots are narrow when compared to typical Brainerd city lots – in many cases 40 – 60 foot lots widths.



When Brainerd Oaks was platted, the City of Brainerd established a housing tax increment financing district encompassing 20 of the residential lots and reduced the price of each of these lots by approximately \$8,000. The City of Brainerd issued \$1.2 million in General Obligation Bonds to construct public improvements including streets, curb, gutters, sewer and water, sidewalks and landscaping. The City subsequently levied a special assessment on each of the lots for these public improvements which have all been installed.

The Brainerd HRA began to market the lots for sale. Two model homes were built in 2004 with one selling in early 2005. Custom homes were built in 2005 on two of the lots in the south end of the development. The remaining lots remained vacant. In order to jump start the development, the Brainerd HRA issued \$2.159 million in housing revenue bonds in 2005 to construct ten spec homes on lots in the northerly portion of the site. The homes were constructed with the intent to show the different models available and to provide a view of the completed streetscape. Construction of the homes was completed in July 2006.

In 2007 and 2008 the housing market crash occurred. The HRA was able to sell 8 of the spec homes (the majority at a reduced rate) but there wasn't enough revenue generated to pay off the 2005 housing revenue bonds. The bank holding the housing revenue bonds subsequently foreclosed on the unsold spec homes and sold four at deep discounts. In 2008, all remaining

vacant lots in Brainerd Oaks (83 lots) went tax forfeit and are now owned by Crow Wing County (not the HRA).

In total, 13 homes have been constructed in Brainerd Oaks – both on spec and custom. Nine of the homes are built in one row (the spec homes) and the other 4 are scattered in the development. The remaining 83 vacant lots owned by the County bear their share of the special assessments levied by the City of Brainerd for the original infrastructure improvements. These assessments, including accrued interest, range from \$15,200 for the smaller lots to \$20,600 for the larger lots.

In 2011, the Crow Wing County HRA explored options to assist in the build out of Brainerd Oaks. They intended on partnering with Lakes Area Habitat for Humanity (LAHFH) to build on 8 of the lots located in the TIF District. The HRA sold the sales house (a building on Oak Street used as the sales office for Brainerd



Oaks) to LAHFH in 2011. LAHFH remodeled the home which was completed in 2013. Because of the special assessment and unforeseen repairs, they lost money on the sale to a qualifying purchaser. LAHFH decided not to build on any other homes in Brainerd Oaks due to the high price of the lots caused principally by the outstanding special assessments.

The County has offered the remaining Brainerd Oaks lots through their Land Services Division. There has been very limited interest expressed by prospective purchasers. No offers have been received and none have been sold.

Preliminary Findings and Observations

Prior to responding to the specific questions posed by the HRA, the panel developed some overall consensus findings and observations regarding Brainerd Oaks which serve as a backdrop for the panel's specific recommendations.

- **Special Assessments.** The special assessments which constitute the first lien on each of the forfeited lots create an insurmountable obstacle to successful development. The amount of the special assessments (ranging from \$16,000 - \$18,000 per lot depending upon the lot size) substantially exceeds the value of each lot which is estimated to be between \$5,000 - \$8,000 per lot. Nothing positive can happen without a solution to the special assessments.
- **No Action:** "Doing nothing" is an alternative, but not a good one. "If nothing changes, nothing changes", said Panel Chairman John Shardlow. He added, "We see nothing to convince us that just waiting is a viable option". The County/HRA/City can play a waiting game in hope that the calculus for the development will improve and the lots will sell for a price that affords repayment of the special assessments while allowing a reasonable profit for a builder/developer. The panel is not confident that this will occur in the foreseeable future based on the current pricing of similar lots in the Brainerd/Baxter market and the projected demand for home sites based on the recent Maxfield report.
- **Sell to a Master Developer.** The prospect of selling Brainerd Oaks in its entirety to a developer is unlikely even if the special assessments are wiped from the property. The potential profit margin is simply too thin to attract a developer who would hold the property and pay attendant carrying costs while pursuing a multi-year build out. "From a developer's perspective it would not be a good investment to be a master developer on this site as the risk is too high given the site constraints and high assessments", noted Bill Beard of The Beard Group.

Similar opportunities exist in the Brainerd Lakes area which are more attractive; better-located, more financially feasible. These opportunities are more competitive and would attract developer interest, which is limited, ahead of Brainerd Oaks. The likely customer for Brainerd Oaks is a lot by lot builder, not a developer.

- **Public/Private Partnership.** The Crow Wing County HRA, Crow Wing County, the Brainerd HRA or the City of Brainerd (or a combination thereof) will need to play the role of the developer/construction lender in order to facilitate development



Rush City Example where Chisago EDA acted as the lender to facilitate a mixed housing development.

of Brainerd Oaks. This option may open up opportunities to attract various home builders who would enter into an agreement to construct, stage, market and sell homes with less financial risk and added carrying costs. Panelist Chris Eng suggested that, “The HRA is in a unique position to secure low cost bond financing privately placed with a local lender to build and/or partner with builders to jumpstart the construction of new housing units”. For example, the HRA could solicit bids from contractors and realtors and then provide the temporary construction financing for new housing units (single family or townhomes) to be built and sold. When the units are sold the proceeds from the sale can then be used to create a revolving fund to construct new additional units.

In addition, it will be very important to seek a variety of partnership opportunities. This will open up options to market for a mix of housing types simultaneously to different market segments.

- **Rebrand the Project:** Based upon the history of Brainerd Oaks the panel recommends that the project should start with a clean slate both financially and from a marketing perspective. This should include changing the project name, enhancing the development entrance, and identifying ways to bring residents to the development to create a more positive image for the area. These strategies will help to create a critical mass of activity to overcome the current negative stigma attached to the property and help to increase buyer confidence.

“Once the fundamental financial barriers have been addressed the County/City leadership should actively pursue multiple partnerships. We all agree that the ability to simultaneously market to multiple buyer types would be very positive.”

TAP Chair John Shardlow, *Stantec*

Panel's Reaction to Questions

The Crow Wing County HRA provided the panel with the history of the Brainerd Oaks subdivision, how it was financed, what has been built to date and a housing market report prepared by Maxfield Research. The ULI MN Technical Assistance Panel offered the following responses to the questions posed by the Crown Wing County HRA.

Question #1

What would the current market support for the build-out of this subdivision? What do you think would be most successful on this property?

- The current market would not support a developer driven solution. In the panel's opinion, there is inadequate market demand and the profit margins are too thin to entice someone to play a "master developer" role at Brainerd Oaks.
- The projected growth of single family homes in Brainerd based on the Maxfield report and recent lot sales data suggests that it will be difficult to absorb the 83 remaining lots within a reasonable time frame given the availability of other properties that are more strategically located and financially feasible.
- Based upon findings from the Maxfield study, the market may support multiple product offerings including one level senior living such as patio homes, larger lot single family homes and multifamily rentals. Multiple product offerings may accelerate activity thus creating a renewed confidence in the marketplace. The price point for new single family homes will need to be competitive with the Willows development to the west which is approximately \$140,000.
- To facilitate and jump start development, the HRA's and/or the City should play the role of master developer/construction lender. In the panel's view, this would reduce the risk to a builder but also provide an incentive to meet market demand. A revolving loan fund could be established which provides construction financing to a very limited, pre-selected number of builders (one or two for each product type) who build and sell homes one at a time. In this way, the HRA/City exposure will be limited to one property. When that property is sold, the HRA/City's construction loan would be repaid and available for another home. Builder selection is critical – only those with a proven track record and the ability to construct, stage and sell well-designed products should be considered.
- Look for other public partners to facilitate various product types and price points. The Greater Minnesota Housing Fund has a history with the Willows development and is currently pursuing, in other markets, housing types such as senior focused doubles that could be well-suited for parts of Brainerd Oaks. In addition, non-profit organizations such as Central Minnesota Housing Partnership could use their non-profit funding mechanisms

and market expertise to facilitate a product type that is not being offered in the area currently.

Question #2

Is it best to stay with the property as it's platted or should we consider other alternatives? Is this cost-prohibitive or feasible?

- The existing public improvements should not be abandoned. In the absence of an opportunity that the panel is not aware of, abandoning the existing improvements will not create a new development opportunity for the property. Abandoning the infrastructure would be costly (relocation of utilities, etc.) and would further burden the property with additional overhead.
- The lots are too narrow for the single family market. Even though the lots are similar in area to other properties in the market, this excess square footage is due to unusual lot depths relative to the lot width. This excess lot depth does not contribute to the development potential of the lots.
- Notwithstanding that the lots are too narrow for the single family market; they might be correctly sized for other product offerings such as zero lot line patio homes for seniors. Therefore, a wholesale replatting of the property is not recommended until a more thoughtful analysis of different product types and locations can be undertaken and agreed upon by the public partners.

Question #3

The assessments are a huge barrier and the City of Brainerd is not in the financial position to offer to waive the assessments. Are there any alternatives or funding sources available to pay off the assessments?

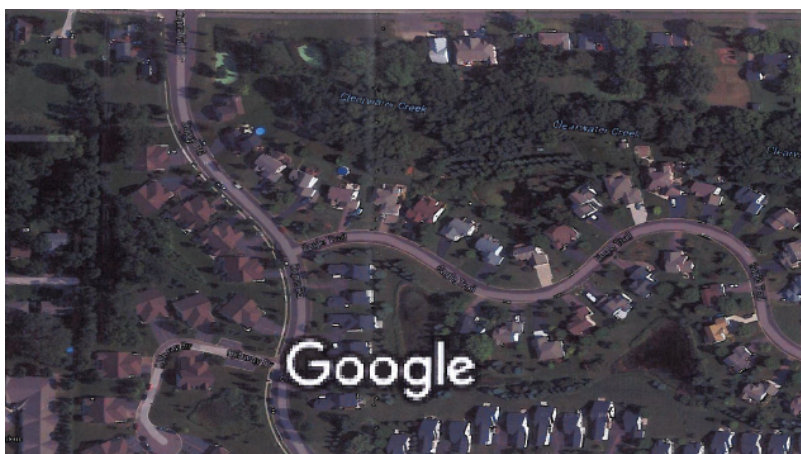
- The panel agreed that the current special assessments are an insurmountable barrier to completion of Brainerd Oaks. It is unrealistic to assume that the property will develop within a reasonable and foreseeable time period with the requirement that these assessments need to be paid in full by the purchasers of the lots.
- The HRA and the City should consider decertifying the current TIF district comprising 20 of the existing lots and establishing a new TIF district or Tax Abatement District encompassing the entire subdivision. Concurrently, the City should take steps to remove the special assessments from the lots and rely on the increments generated from the new TIF or abatement to pay public development and land costs commensurate in value with the amount previously financed through special assessments. This method may or may not make the City whole in terms of its previous expenditures for public infrastructure. But, it is likely the only realistic hope for the City to recover at least some of their infrastructure investment.

Question #4

If you could do any development on this subdivision you wanted, what would you do?

Based upon the discussion, the panel identified key actions related to encouraging development:

- **Create a more attractive and inviting entrance from Oak Street.** The current condition of the Habitat for Humanity property contributes to a failed image for Brainerd Oaks. The panel would recommend that steps be taken to improve the condition of this property or screen it from the street and surrounding properties.
- **Rebrand the development.** “Brainerd Oaks” is identified with a failed project. A new brand for the development with a new vision and plan moving forward would create an opportunity to rebrand with a positive image.
- **Explore opportunities to increase amenities within the subdivision.** Evaluate ways to create more amenities in the area such as water features, play areas, community gathering places and senior focused amenities to create "new life" and reasons to visit the development area.
- **Allow for a mix of housing options.** Providing opportunities for two or three product types – small lot and larger lot single family, one level patio homes and multifamily rental on the larger lot on Oak Street.
- **Develop and secure support for a new plan with multiple options.** Hire a planning/design firm to work with the HRAs and City on a new plan for the area that would include the action ideas above. Create and adopt a new vision by all parties and partners.



Example of a successful mix of housing types (price and product) in a curving street design in Centerville MN.

Conclusion

The Technical Assistance Panel brought the expertise of state-wide and local real estate developers, construction, planning, and financial experts to evaluate a path forward for reinvigorating development interest in the Brainerd Oaks subdivision.

Nationally, the real estate industry, including the single family sector, was a principal “victim” of the Great Recession. Thousands of stalled out subdivisions similar to Brainerd Oaks exist throughout the United States. Were it not for bad timing, these subdivisions, including Brainerd Oaks, could have been successful and would have accomplished the goals envisioned by their sponsoring entities. No one is to blame for Brainerd Oaks!

The discussion was an eye-opening exchange, revealing that there sometimes exists a gap between what government officials might desire for an area and what real estate and development professionals believe the market will bear; particularly as a result of shifts in market demand.

The Crow Wing HRA, the Brainerd HRA, Crow Wing County and the City of Brainerd are to be commended for their willingness to work together to find a solution for Brainerd Oaks. We hope this Technical Assistance Panel helped provide a road map that will lead to that solution. On behalf of ULI Minnesota, thank you for the opportunity to be of service to you.

"Developers haven't been looking for projects in this market since the recession hit. While the market's beginning to improve, I don't believe it's prudent to wait for the perfect developer. Developers want projects that they can sell out of in 3-5 years and they prefer to create their own problems rather than take over someone else's project. In my opinion, the best prospect will be the builder/investor who may make a few dollars on the lots and expects to make more on the construction projects."

Rod Osterloh, *Close Converse*



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