

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

REPORT TO THE COMMISSIONERS

DATE: MARCH 12, 2025

**REGARDING: RESOLUTION APPROVING THE PARTIAL LOAN FORGIVENESS OF UP TO \$1,255,384 IN COMBINED PRINCIPAL AND INTEREST ON THREE HOUSING AND REDEVELOPMENT AUTHORITY LOANS TO THE COMMERCE BUILDING PHASE I AND COMMERCE BUILDING PHASE II PROJECTS, 10 4<sup>TH</sup> STREET EAST, DISTRICT 17, WARD 2.**

## **Requested Board Action**

Requesting the Saint Paul Housing and Redevelopment Authority (HRA) Board of Commissioners approve the forgiveness of up to \$1,255,384 in combined principal and interest on the following HRA Loans:

- Community Development Block Grant (CDBG) Loan of \$1,434,024 from HRA to Commerce Apartments Limited Partnership for Commerce Building Phase I, dated August 30, 2007
- Metropolitan Council Loan of \$563,100 from HRA to Commerce Apartments Limited Partnership for Commerce Building Phase I, dated August 30, 2007
- HOME Loan of \$895,173 from HRA to Commerce Apartments Phase 2 Limited Partnership for Commerce Building Phase II, dated January 21, 2011

## **Background**

The Commerce Building is a 100-unit, 12-story affordable housing project located at the southwest corner of 4<sup>th</sup> Street and Wabasha Street, owned by CommonBond Communities (CBC). CBC led the conversion of this class C office building into workforce housing from 2007 to 2011 in two phases. It is owned by three separate entities and is listed on the National Register of Historic Places. Commerce Apartments Limited Partnership owns 55 units, floors 7-11 (Phase I); Commerce Apartments Phase 2 Limited Partnership owns 45 units, floors 2-6 (Phase II); and Commerce Retail LLC owns the ground floor retail. All housing units are restricted to rents of 60% AMI or less, with additional layered affordability including 11 Long-Term Homelessness

(LTH) units, seven HOME units, six CDBG units, and four Section 811 units. Phase I tax credit units are restricted until 2037, and Phase II tax credit units are restricted until 2041.

After years of deficits and advancing more than \$1.5M to the project, CBC has concluded they can no longer sustainably own or manage the project. Factors in this decision include maturing bank debt, no path for recapitalization, a more expensive operating cost model, and no economies of scale without other downtown Saint Paul properties in CBC's portfolio. CBC has considered multiple solutions, including bank foreclosure.

#### Sale to PAK Properties:

In 2024, CBC marketed the property, received three offers, and selected PAK Properties' offer of \$3,200,000. PAK Properties (PAK) is partnering with Halverson and Blaiser Group (HBG) as part-owner and property manager. The sale to PAK will avoid bank foreclosure, keeps the tax credit affordability in place through the existing affordability period, limits disruption to residents, and will generate sales proceeds for partial repayment of HRA and Minnesota Housing Finance Agency (MHFA) debt. Closing is anticipated by March 31, 2025. PAK and HBG have applied for the transfer of ownership for the tax credit projects. PAK has a track record and expertise in commercial leasing. PAK has committed to making best and urgent efforts to fill the vacant commercial space.

With the repayment of \$600,000 in principal on MHFA's loan to Phase I, six LTH unit restrictions will end. CBC will provide transition services for those residents. MHFA has reviewed and accepted CBC's transition plan for the LTH residents. Ramsey County is providing funding to PAK properties to maintain the remaining five LTH units. PAK is working with Simpson Housing as the LTH service provider. The existing Section 811 units, supportive housing for people with disabilities, will be maintained.

CBC will execute a transition agreement with the HRA outlining how current residents will be supported in the ownership transition. CBC has committed to:

- Notify residents of the sale and potential range of rents allowed for their unit when their current lease expires.

- Offer one-year lease extensions to residents to maintain continuity.
- Offer any resident the ability to be placed on a CBC waiting/interest list for project(s) for which they qualify, including rent-assisted units.
  - Commerce residents will be prioritized, as allowed by Fair Housing laws and regulations, when such units become available.
  - Residents can stay in place at their current rent at Commerce, so long as they have an active lease.
  - CBC will cover reasonable moving expenses for six months post-closing
- Notify any residents with parking contracts of the loss of parking subsidy at the end of their current lease.
- Transition six LTH residents to other CBC properties with commensurate rent and service level and cover reasonable moving expenses.
- At six- and twelve-months post-sale, report to HRA staff the dates of notice(s) to residents, date of relocation (if applicable), and any change in rents.

**Budget Action**

Future amendment(s) to the City budget may be needed to use the loan repayments for projects allowed by the grantor agencies.

**Future Action**

N/A

**Financing Structure**

The HRA has three deferred, subordinate loans to the Commerce Building Phase I and Phase II projects.

<b>Source</b>	<b>Initial Loan Amount</b>	<b>Balance (01/15/2025)</b>	<b>Maturity</b>
CDBG	\$ 1,434,024	\$ 1,681,871	12/31/2037
Met Council	\$ 563,100	\$ 563,100	08/30/2037
HOME	\$ 895,173	\$ 895,173	01/21/2041
<b>Total</b>	<b>\$ 2,892,297</b>	<b>\$ 3,140,144</b>	

Proceeds from the sale of the Commerce Building will be \$3,289,000, with the following partial forgiveness requested by CBC:

<b>Loan</b>	<b>Balance (01/15/25)</b>	<b>Repayment</b>	<b>Total Forgiveness</b>
US Bank	\$ 774,240	\$ 774,240	\$ -
MHFA ELHIF - Phase 1	\$ 693,750	\$ 600,000	\$ 93,750
<b>HRA Loans - Combined</b>	<b>\$ 3,140,144</b>	<b>\$ 1,914,760</b>	<b>\$ 1,225,384</b>
MHFA ELHIF - Phase 2	\$ 679,918	\$ -	\$ 679,918
CommonBond	\$ 1,523,873	\$ -	\$ 1,523,873
Rutzick (Commercial)	\$ 181,966	\$ -	\$ 181,966
<b>Total</b>	<b>\$ 6,993,891</b>	<b>\$ 3,289,000</b>	<b>\$ 3,704,891</b>

Staff anticipates repayment will be split proportionally between the three loans based on the percentages of initial investment:

<b>Source</b>	<b>Initial Loan</b>	<b>Balance (01/15/2025)</b>	<b>% of Investment</b>	<b>Payment</b>	<b>Forgiveness</b>
CDBG	\$1,434,024	\$1,681,871	49.6%	\$1,074,080.54	\$607,790.46
Met Council	\$563,100	\$563,100	19.5%	\$324,150.12	\$238,949.88
HOME	\$895,173	\$895,173	30.9%	\$516,529.34	\$378,643.66
<b>Total</b>	<b>\$2,892,297</b>	<b>\$3,140,144</b>		<b>\$1,914,760</b>	<b>\$1,225,384</b>

Final repayment amount may be slightly greater, and forgiveness will depend on proceeds available after repayment of US Bank loan. Total forgiveness of HRA debt will not exceed \$1,225,384.

**PED Credit Committee Review**

The Credit Committee reviewed and approved the proposed partial loan forgiveness on February 11, 2025.

**Compliance**

N/A

## **Green/Sustainable Development**

N/A

## **Environmental Impact Disclosure**

N/A

## **Historic Preservation**

The Commerce Building is listed on the National Register of Historic Places, which will not be affected by this action.

## **Public Purpose/Comprehensive Plan Conformance:**

1. One of the 2040 Comprehensive Plan major housing strategies is to ensure the availability of affordable housing across the city.
2. Comprehensive Plan policy H 3.1. calls for supporting the preservation of publicly-assisted and private affordable housing.

## **Recommendation:**

The HRA Executive Director recommends approval of the resolution to partially forgive principal and interest on three HRA loans to Commerce Apartments Limited Partnership and Commerce Apartments Phase 2 Limited Partnership. Final repayment and forgiveness amounts will depend on available sales proceeds; loan forgiveness will not exceed \$1,225,384.

**Sponsored by:** Commissioner Rebecca Noecker

**Staff:** Laura Haynssen

## **Attachments**

- **Map**
- **Neighborhood Profile**