

ITEM IV.C – DISTRIBUTED AT THE MEETING



Hastings Economic Development and Redevelopment Authority

To: HEDRA Commissioners

From: John Hinzman, Community Development Director

Date: September 14, 2017

Item: Consider Request to Amend Mortgage – Black River Properties (Elm Salon) – 110 East 4th Street

HEDRA Action Requested:

Consider the following request of Beth Warner of Black River properties pertaining to the Elm Salon located at 110 East 4th Street:

- 1) Forgive two existing mortgages totaling \$126,250 in favor of HEDRA utilized for purchase of the building.

OR

- 2) Agree to subordinate primary mortgage interest to allow for purchase and renovation of another downtown building.

Please see the attached request for further information

Original HRA Acquisition

The Housing and Redevelopment Authority (HRA) acquired 110 East 4th Street along with a triplex located at 406/408 Sibley Street (present home of Carlson Capital) in 2002 for \$385,000. It appears the purchase price for 110 East 4th Street comprised approximately \$63,000 of the total. Both properties were in poor condition with numerous property code violations.

HRA Sale to Black River

The HRA sold 110 East 4th Street to Black River Properties in 2006. The building was vacant and in need of extensive renovation. The HRA approved the following loans secured by mortgages in executing the transaction:

- \$94,000 loan for purchase of the property.
- \$32,250 loan to reduce the mortgage interest on a \$250,000 renovation loan (loan has been repaid in full).

Payment of both loans were deferred until sale of the property. Upon dissolution of the HRA in 2009, interest in both mortgages was transferred to HEDRA.

Forgiveness of Existing Loans

Forgiveness of \$126,250 in existing mortgages were not part of the original HRA action in 2006. Both loans were deferred until sale of the property with no payments due until that time. The HRA issued a check in the amount of the \$32,250 directly to the holder of the \$250,000 renovation loan to reduce mortgage interest. Dakota County's estimated market value of the property is \$195,400. The appraised value of the property is \$280,000. Staff does not recommend forgiveness of the loans.

Subordination of Mortgage Interest

HEDRA is the primary (and only) mortgage lien holder on the Elm Salon property. Being in first position on the loan allows HEDRA to be the first entity paid if there is a default on the property. Agreeing to subordinate the loan position creates additional risk for HEDRA if a default was to occur on the property; the primary holder of the mortgage would be paid first, with HEDRA collecting any proceeds remaining after payment to the primary holder.

Subordination Request

Merchants Bank has agreed to issue a \$557,000 mortgage for acquisition and renovation of another property in downtown Hastings. Black River Properties has been asked to provide the Elm Salon property as collateral to secure interest in the new loan. In addition, HEDRA is asked to subordinate their primary position on the Elm Salon mortgage for a period of time until the renovations are complete and building presents sufficient cash flow to repay the loan. The term for subordination is indefinite, but may be approximately two years.

As part of the loan, Merchants Bank would secure mortgages on both the Elm Salon and new building acquisition as follows:

ELM SALON BUILDING	
Proposed Mortgage Subordination:	
Appraised Valuation	\$280,000
Proposed Merchants Mortgage (75% of appraised value)	\$210,000
Amount Remaining Upon default of Merchants Mortgage	\$70,000
HRA\HEDRA Investment:	
Estimated Original HRA Purchase Price - 2003	\$63,000*
HRA Payment to Reduce Mortgage Interest on Construction Loan - 2006	\$32,250
Total HEDRA Cash Investment	\$95,250
Net Proceeds on Sale of Building to Black River – 2006 (excluding carrying costs)	\$31,000
Total HRA\HEDRA Investment	\$126,250

* Part of \$385,000 combined acquisition of 406/408 Sibley Street

NEW BUILDING	
Loan Details:	
Proposed Purchase Price	\$275,000
Proposed Building and Renovation Costs	\$254,000
Contingencies	\$28,000
Total Loan Amount	\$557,000
Valuation Details:	
Appraised Valuation – As Is	\$325,000
Appraised Valuation – As Completed	\$510,000
Appraised Valuation – As Stabilized (leased)	\$620,000

Analysis of Subordination Request

- Upon subordination, the appraised valuation of the Elm Salon Building does not support the full recapture of the HRA\HEDRA investment in the property if a default was to occur.
- As primary lien holder, Merchants would be repaid the first \$210,000 from any proceeds, with HEDRA obtaining any remaining funds.
- Subordination of loan interest may establish a precedent for other outstanding HEDRA loans.
- Agreeing to the subordination request on the Elm Salon property places HEDRA at additional risk upon default of the existing Elm Salon and\or default of the loan on the new downtown building.

Outstanding Questions

HEDRA should carefully consider the potential risks involved through subordination. Further clarity on the following questions is recommended prior to taking any action:

- Review of the appraisals for both the Elm Salon and new building properties to assess valuation assumptions.
- Review of financial documents used to determine financial capacity (similar to the Bank's loan) such as tax returns, profit & loss statements, and balance sheets of the entities involved in Black River Properties and purchase of the new building.
- Further information on the confirmed or proposed tenants of the new building to determine financial viability.

Options for HEDRA Assistance

In lieu of the requests made by Black River Properties, HEDRA may consider assistance as follows:

- **Begin Payment of Existing Mortgage** - Payment on the two existing HEDRA loans has been deferred until sale of the property. In exchange for agreeing to the subordination request, HEDRA could require the enactment of a full or partial payment plan to help retire the existing mortgages.

- **Economic Development Revolving Loan** - Black River could apply for an Economic Development Revolving Loan to finance renovations directly to the building they wish to purchase. A direct loan to the new building would avoid risking our interest in the Elm Salon Building. Restructuring of the loan to eliminate subordination in lieu of direct HEDRA financing would require approval of Merchants loan committee; it is unclear as to what amount may be sought and if the loan committee would look favorably on the change.

Past HEDRA-HRA Assistance Actions

HEDRA has provided assistance to facilitate downtown redevelopment in the following ways:

- **Reduction in Sales Price** – HEDRA has sold downtown properties for one dollar to remove blight, facilitate redevelopment, or spur development of long vacant properties. Specific needs are identified prior to beginning of the project. HEDRA has not provided assistance after a project has been completed. Examples include Carlson Financial, Artspace, and Hudson.
- **Reduction in Loan Payment** – HEDRA has reduced the repayment terms of existing loans in the past. The repayment amount of the Guardian Angels Note were reduced in 2014 to facilitate sale and redevelopment of the property as Hastings Arts Center. The \$244,000 estimated loan balance of the \$150,000 loan reduced to \$160,000. HEDRA recouped its original investment.
- **Modification of Repayment Terms** – At the request of the primary lender, HEDRA agreed to modify its typical 10 year repayment terms for the Hastings Arts Center Loan. Payment was deferred for the first five years, with the term extending from 10 to 15 years.
- **Forgiveness of Loan** – In the past the HRA issued full and partial forgivable loans based upon the length of time for operation of the business. The justification and terms for forgiveness were identified prior to beginning of the project. HEDRA has not issued such loans.
- **Deferral of Payment Until Sale** – In the past the HRA deferred payment of some loans until sale of the property. The justification and terms for forgiveness were identified prior to beginning of the project. HEDRA has not issued such loans.

Attachments:

- Beth Warner Request

John Hinzman, AICP

From: Beth Warner <beth@elmsalon.com>
Sent: Thursday, September 07, 2017 11:36 AM
To: John Hinzman, AICP
Subject: HEDRA Agenda

Good morning John,
Could you please add me to the agenda for the Thursday, September 14th, 2017 meeting.

I Beth Warner (Black River Properties) am asking the board for forgiveness on the mortgage owed on the 110 4th St. Property. The property was purchased from the city for \$1 and I believe that I have honored the agreement and the vision of HEDRA by completing a full renovation and creating a business that has run successfully for 11 years. As my current business continues to grow I would like to have a clear mortgage so that I may use this property for collateral so I may invest in another historic property downtown. Much like the purpose of HEDRA, my goal and vision of this new project is to continue the economic growth and preservation of our downtown.

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