SOUTHWEST MINNESOTA
Housing Partnership

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MEMORANDUM

TO: EDA Members

FROM: Southwest Minnesota Housing Partnership

DATE: November 25, 2025

RE: Homestead Apartments Flood - Operational and Financial Impact and Request for Partnership

PURPOSE

This memo summarizes the impacts of the flooding that occurred at Homestead Apartments in July 2025, which displaced 40 families and created significant challenges for residents, operations, and the future of affordable housing at this critical site; and seeks the Economic Development Authority's consideration of partnership to stabilize the property and preserve these affordable homes.

INCIDENT OVERVIEW

Property: Homestead Apartments
Buildings Impacted: Five buildings (100, 110, 120, 130, 150)
Units Displaced: 40 affordable housing units
Total Number of Units: 120
Insurance Claim: $2,899,670 net balance (after $441,156 deductible)
Total Replacement Cost: $3,340,826.50 total which does not include contents

IMPACT ON RESIDENTS

Forty families faced immediate housing crisis and ongoing hardship:

- **Immediate Displacement:** Residents given days to evacuate before mitigation work began
- **Financial Burden:** New deposits, moving costs, higher rents in temporary housing—expenses low-income families couldn't afford
- **Children Disrupted:** School changes, longer commutes, or difficult transportation arrangements
- **Employment Challenges:** Longer commutes or job losses for those unable to relocate near workplaces
- **Loss of Community:** Support networks and neighbor relationships severed
- **Prolonged Uncertainty:** Months without clear timeline for return, preventing families from establishing stability

CASH FLOW AND OPERATIONAL IMPACT

The flood created an immediate and sustained financial crisis:

Daily Holding Costs: $4,155 - $5,802/day

- Emergency equipment rental (air scrubbers)

- 24/7 moisture monitoring to prevent mold growth
- Containment barriers protecting occupied units

Lost Revenue: $26,000/month

- 40 units generating zero rental income
- 6-month reconstruction timeline = $156,000+ in missing revenue
- Depleted reserves for operations and to cover mortgage during mitigation and rehab of units will need to be paid back to the reserves per loan agreements.

Fixed Operating Obligations Continue: $40,000-$50,000/month

- Mortgage payments due regardless of occupancy
- Property taxes, insurance premiums, base utilities
- Property management overhead now consumed by crisis management

Total Monthly Cash Drain: $200,000+ while awaiting insurance reimbursement, not including the deductibles and uncovered costs. Reserves were utilized to cover debt service payments until Dec 1, but must be replenished before Dec 31, 2026.

IMPACT ON PROPERTY MANAGEMENT TEAM

The flood transformed routine property management into sustained crisis response:

- **Workload Shift:** From routine maintenance and tenant relations to daily vendor coordination, insurance negotiations, and resident crisis support
- **Portfolio Neglect:** Routine maintenance deferred at other properties, preventive work postponed
- **Insurance Documentation:** Endless ESX files, labor logs, IH protocols, daily reports—administrative burden consuming staff capacity

THREAT TO AFFORDABLE HOUSING AT HOMESTEAD

The financial pressures created by this disaster threaten the long-term viability of Homestead as affordable housing:

Immediate Cash Flow Crisis

- $441,156 deductible
- $3.3 million in total cash
- Months-long delay between incurring costs and receiving reimbursement

Risk of Mortgage Default

- If cash flow becomes unsustainable, mortgage payments could be missed
- Default triggers foreclosure proceedings
- Lender takes ownership, likely selling to commercial buyer

Conversion to Market-Rate Housing

- New owner not bound by affordability restrictions
- Renovated units rented at 2-3x current affordable rates
- Original residents permanently displaced—unable to afford return

- Permanent loss of 40+ affordable housing units in the community

KEY INSURANCE CHALLENGES

The insurance claim process revealed systemic problems:

- **High Deductible:** $441,156 is catastrophic for nonprofit housing providers operating on thin margins
- **Documentation Burden:** Endless submissions of ESX files, estimates, labor logs, protocols in specific formats
- **Financial Discrepancies:** Currently at minimum gap of $125,000 between estimates and Proof of Loss had to be identified and challenged by SWMHP
- **Scope Disputes:** Disagreements over water damage category, containment coverage, supervision costs, required protocols for silica, mold and air quality containments for residents still residing in the building. These disputes may increase costs by up to $1,000,000.
- **Reimbursement Timing:** Months of delay between incurring costs and receiving payments, creating liquidity crisis

CONCLUSION

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The Homestead Apartments flood represents not only property damage, but a direct threat to the long-term stability of a critical affordable housing asset serving the local workforce and vulnerable households. With proper support and without further complications, SWMHP expects to restore all 40 units and return displaced families to their homes.

However, this recovery cannot be achieved without strategic public-private partnership. Without financial intervention or support, the risk of permanent loss of these affordable units is real and imminent. The lengthy claim processes has threatened operational solvency, the insurance deductible creates an immediate cash crisis, and restricted operating margins leave little cushion for disasters.

NEED FOR ROOT CAUSE ANALYSIS AND PREVENTION

Beyond the immediate recovery efforts, SWMHP recognizes the critical need to understand why this flood occurred and how to prevent future incidents. We are working with an engineering firm who has proposed conducting a comprehensive analysis that would:

- Identify the root causes of the flooding at Homestead Apartments
- Assess drainage infrastructure and stormwater management in the immediate area
- Evaluate property-level mitigation measures and improvements
- Develop recommendations for preventing future flood events
- Provide engineering specifications for necessary infrastructure upgrades

The cost of the engineering study represents an additional financial burden during an already difficult recovery period. However, without understanding the underlying causes, we risk repeating this crisis.

REQUEST FOR CITY PARTNERSHIP

Importantly, **Homestead Apartments was not the only property affected by this flooding event**. Multiple residential homes in the surrounding neighborhood also experienced flood damage, indicating that this is not an isolated property maintenance issue but rather a **broader neighborhood infrastructure problem** that requires a coordinated response.

We respectfully request the EDA’s and City’s partnership in addressing this systemic issue through financial and strategic support::

1. **Cost-Sharing for Engineering Study:** Given that multiple properties were impacted and the problem appears to stem from broader drainage or stormwater infrastructure issues, we request the City consider cost-sharing for a comprehensive engineering study of the affected area.
2. **Infrastructure Assessment:** We encourage the City to conduct its own assessment of stormwater management systems, drainage capacity, and flood mitigation infrastructure in this neighborhood.
3. **Financial Support:** We are seeking financial support from funding sources like the Housing Trust Fund and Community Development Block Grant to assist in addressing the remediation and insurance deductible to restore the 40 units.
4. **Collaborative Solution Development:** Once causes are identified, we request the City's partnership in developing and implementing solutions—whether through infrastructure improvements, stormwater management enhancements, or other mitigation measures.
5. **Future Prevention:** A collaborative approach will benefit not only Homestead residents but all neighborhood residents who face flood risk, while potentially preventing future disasters that strain both property owners and city emergency response resources.

SWMHP remains committed to restoring Homestead and returning residents to their homes, but the financial and operational toll of this disaster will have lasting impacts on the organization's capacity and the affected families' stability.

We appreciate the EDA, City and County's attention to this matter and welcome any questions.