

The Residence at the COR
230 Unit Market Rate Apartment Project - Projected Groundbreaking Spring 2012

The Residence at the COR is a 230-unit market rate apartment project that is proposed to be constructed to the north and west of the existing and expanded municipal parking facility. The units will be constructed with a high level of amenity and finish with direct access to the new Ramsey Station on the Northstar Commuter Rail Line, making it a unique housing product in not only Ramsey, but also the north metro. With a Spring 2012 groundbreaking, the first units would be available after the opening of the Ramsey Station in late 2012.

The City of Ramsey's Housing and Redevelopment Authority is considering providing financial assistance to the project with the use of Tax Increment Financing dollars as well as providing gap construction financing. The last page of this Frequently Asked Questions document includes a deal summary that describes the project from a financial perspective as well as the financial assistance being considered by the City's Housing and Redevelopment Authority.

Frequently Asked Questions

1. What happens if nobody rents the apartments?

Two market research studies both concluded that there is a strong market for market-rate apartments in Ramsey, particularly on the Northstar Commuter Rail Line (Flaherty and Collins market study in conjunction with Maxfield Research and appraisal conducted for the bank by CBRE Minneapolis). It must be emphasized that the market area extends far beyond Ramsey to the broader North Metro area, so one cannot only look within the City's boundaries in assessing a market area. If, however, the apartments could not be rented at a number to generate sufficient revenues to make debt service payments, the developer will be in default, and after a cure period, the lender (first the City, then the bank) could step in to take control of the project.

2. If the market for rental housing is so good here, why is the City being asked to provide gap financing for the construction?

The bank is providing 50% loan to value (66% loan to cost) financing for the project, which equates to \$20 million in private financing. While the original financing sought for the project was at a higher loan to value ratio, there are two primary reasons why this could not be accomplished:

- The product proposed is unlike any other product in the north metro. A high amenity, transit oriented product is new to the marketplace, and while this is exactly the product sought for The COR, as well as every station on Northstar, there are no comparable projects to which the appraisers can compare. Without comparable properties the banks are hesitant to participate at a traditional level.
- While the HRA's work over the last two years to create a positive marketplace perception has been effective, the banking community suffered considerable losses in the former Town Center project. Most local banks, and many national banks, consider The COR a higher than normal risk for investment. Accordingly, their reactions are to either decline to participate, or participate at a lower level until positive project momentum can be established. Successfully completing this project will open opportunities for more private banking participation on future projects.

2. What makes you think anyone will rent at these prices?

Referencing the two market research studies, both concluded that there is a strong market for market-rate apartments in Ramsey, particularly on the Northstar Commuter rail Line. Drawing on comparative apartment projects in the Minneapolis suburban area, their studies project market rent rates ranging from \$1.10 to \$1.40 per square foot per month. The Residence at the COR project's proforma projects rents at the \$1.21 per square foot, which translates to an average of about \$1,210/month for a 1,000 square foot unit.

3. Do you really think that young adults can afford to pay \$1,210 for rent? Why not purchase a home for the same price?

The developer and the City of Ramsey have identified that the target market segment for these apartments is likely young professionals that desire to have convenient access to transit, urban living with amenities and services, but also the opportunity to enjoy the great outdoors that Ramsey and locations to the north have to offer. The young professional segment is a target, and this is generally of the 25-35 year old age group. Moreover, market evidence shows that this product is also attractive to empty-nesters or single professionals. While many people will prefer to own a home, in a more restrictive lending environment and soft housing market, leasing a high quality apartment may be the best option. Moreover, some individuals are not ready to take on the responsibility or commitment of owning a home.

4. F&C has a history of bankruptcies. What if it happens with this project?

The reality is that there are few, if any, developers that have not had a project struggle to work out the way it was planned. Flaherty & Collins operates 70 properties across the US with over 9700 units of apartments under management housing over 15,000 residents. Flaherty & Collins has had two projects that were in bankruptcy protection. One was a high rise condo project in Charlotte, NC, and the other was an apartment project in Raleigh, NC. The high rise project was a result of the complete collapse in the condo marketplace in 2008. The Raleigh project was constructed and leased successfully, if a bit slower than projected, by Flaherty & Collins. It should be noted that this was in the midst of the economic downturn and bank credit crisis. Permanent financing was very difficult to secure, as it was for everyone in the property and real estate business. Bankruptcy was filed to protect the participants' assets. Subsequently the project was valued, sold, and all parties paid in full.

5. Why would you choose to work with F&C and their history of bankruptcies?

We have conducted a financial background check on the firm's principals. We have examined their award-winning projects, and we have spoken to others who have done business with them. We are in the process of finalizing solid, yet complicated, development, purchase and loan agreements with them. We believe that F&C (1) is a solid partner for the City of Ramsey, (2) possesses the financial and technical wherewithal to execute this project, and (3) that F&C shares the City's vision and understands our guiding principles for The COR at Ramsey.

6. If this project fails will our property tax be affected?

The project is structured so that project revenues and property tax increment can be used to pay the debt service. Additionally, if the project would fail, other tax increment revenue sources could be used to pay the debt service. There is likely no realistic scenario that can be presented that would result in an impact on property taxes to pay the tax increment -general obligation bonds.

7. What are you doing to help the rest of Ramsey?

This project will have a direct and positive impact on the entire Ramsey community. The COR at Ramsey is Ramsey's project that has been envisioned as a gathering place for the community to live, do business, shop and dine for the past decade. By creating a pedestrian friendly, transit oriented downtown, those 230 occupied units of relatively affluent residents will bring customers to the existing businesses, activity and excitement to downtown Ramsey – The COR. The effect of success in The COR raises the tide for all of Ramsey and spurs additional growth opportunities for additional employment, housing and commerce throughout the City, thus increasing tax base to pay for existing services.

8. Why was retail included in the apartment project when other retail areas have vacancies and are struggling?

The Residence at the COR project anticipates 3,000 square feet of retail on the north east corner of the project, immediately adjacent to the Municipal Plaza. This was a key component of the project to ensure that some retail or service use be present at the corner with the Municipal Plaza, however, the number of square feet was limited to 3,000 square feet to ensure that the retail was not over-built in this phase. If successful, additional opportunities for retail will be available on the north side of Sunwood Drive on all three sides of the park envisioned for that area.

9. What effect will the Ramsey Station have on the Northstar Commuter Rail Line and what additional effect will the COR at Ramsey have on the Northstar Commuter Rail Line?

The construction of the Ramsey Station will immediately add an average of 230 rides per day to the Northstar Line. When the Station opens in late 2012, the Ramsey Star Express will stop its daily service to downtown, thus transferring those riders to the Northstar Rail. The Residence at The COR project has the potential to add additional riders of over 200, in that the likely residents of the apartments will value and utilize the transit amenity of the Northstar Station. These additional riders strengthen the Northstar Line and help support the eventual goal of extending the line past Big Lake to service St. Cloud, creating additional commuter opportunities for residents who may work or live in the north metro.

As always if you should have any questions that are not addressed in this FAQ document, please contact Heidi Nelson, HRA Executive Director at 763-433-9817.