



September 2, 2015

City of Ramsey Council Members and Staff,

As you know, earlier this year PSD, LLC purchased approximately 14 acres from the City of Ramsey, of which a portion of this lot would be platted to develop an apartment project. The following is a summary of what has taken place, where we are today, and how the project will advance in the future.

Background Information:

In 2014 PSD, LLC ("PSD") submitted a Purchase Agreement to the City of Ramsey ("the City") for the purchase of Outlots A & B, RTC 11th Addition. At the time the PA was submitted, there were some zoning issues. The City did not accept the PA and re-evaluated the zoning and FAR in certain areas of the COR. The City worked through these zoning issues and made some policy changes earlier this year. Prior to PSD submitting the original PA, PSD developed assumptions and commissioned a market study for market rate apartments to verify that a new building could justify the need for market rate apartments in this area. Upon building a Proforma, which weighed heavily on the contractors and architects estimated building costs, as well as, the need determined by the market study for the quantity and types of units, we proceeded with the project. At that time we met the minimum threshold return rate of 7.5% which the bank and investors require.

Where We Are Today:

We have had major cost overruns in the project. The single largest overage is the actual bid for the construction of the building. Since we closed on the lot this spring the actual bid numbers are significantly higher. During the bidding process we obtained multiple bids and selected the lowest qualified bid. All bids that were submitted were qualified and complete. As an act of good faith, the GC we selected reduced their bid in order to close the gap of the unexpected costs. Currently the land is titled to PSD, and PSD is prepping the lot for construction. Upon commencement of the construction of this project, PSD will transfer the portion of the lot to the ownership group that will construct the complex. PSD will retain ownership of the balance of the raw land and will develop this raw land when the market can justify additional projects. The entity that will own, construct and operate the building will be Parkview East, LLC, which is comprised of multiple investors. After running a cost analysis, the project was approximately \$1M over the anticipated budget. Through cost cutting measures, having some items re-bid, having the GC reduce their overhead cost, and value engineering the shortfall is now slightly over \$500,000.

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Going Forward:

PSD and Parkview East are requesting some type of assistance that totals \$500k in order to bridge the gap of these cost overruns. Without this assistance the project will not be able to proceed. There are many important factors that play into the timing of this project. They are as follows:

1) There is a group that is proposing an apartment complex in Anoka. The market study determined that demand in this area will overlap. Usually the first project in the ground will drive out any competitors; therefore, if our project does not start first it will stall for an undetermined amount of time.

2) Given the rising construction costs we are experiencing, we anticipate costs can only go higher. Apartment rental rates do not increase at the same proportion.

3) We are entering the fall season so if the project is pushed back too far we will incur winter heat charges for the footing and foundation. This additional expense only magnifies the shortfall.

In conclusion, initially we thought the project could be developed and constructed without any type of concessions or assistance. Once these additional costs were brought to our attention, we reassessed the cost of this project. We have provided you a project cost overview for your review. As you know we are dedicated to this City and want growth in all areas. To date, we have not received any assistance of any type for the numerous projects we have developed in the COR. Feel free to contact me if you have additional questions or would like clarification regarding the information in this letter.

Sincerely,

A handwritten signature in blue ink, appearing to read 'MK', with a long horizontal flourish extending to the right.

Matt Kuker
COO

Overview of costs for Parkview East Apartments

Construction costs:	\$13,927,100
Improved land:	\$1,886,052
Platting Fees and Permits	\$1,353,468
Soft Costs (Financing, Interest, Legal, Accounting)	\$780,189
Contingency	<u>\$300,000</u>
Total	\$18,246,809

Project Narrative:

The proposed project will be a 122 unit market rate apartment to be located in the COR. We have incorporated a high level of aesthetic items that will be visually pleasing to guests and residents of Ramsey, MN. The exterior will include Nichiwa panels, stone, brick, cantilevered balconies and building accents that complement both the residential and commercial districts. This project is adjacent to the Draw Park, there will be green spaces, patios and walking trails that connect to the Draw Park. We anticipate our tenants to be a diverse cross section of many demographics.