

Meeting Date: 05/10/2016

Submitted For: Patrick Brama, Administrative Services

By: Patrick Brama, Administrative Services

Information

Title:

Aeon Purchase Agreement [PORTIONS OF CASE MAY BE CLOSED TO THE PUBLIC]

Purpose/Background:

PURPOSE

Consider attached offer to purchase City-owned land (Purchase Agreement, PA). Provide a recommendation to the City Council.

OVERVIEW

Attached to this case is a purchase agreement from Aeon, a Twin Cities housing developer. Aeon is interested in purchasing 3.38 acres of City-owned land located within The COR, on the northeast corner of Ramsey Parkway and Center Street (just north of The Draw). Aeon is proposing a 40-60 unit, 3-story, income restricted, apartment complex. In many ways, this proposed project will be structured much like the Common Bond project currently under construction in The COR.

Aeon plans to fund their \$12.4M project by utilizing low income housing tax credits (LIHTC), Metropolitan Council grants, Anoka County Homes Funds, and owner equity. At this point, Aeon is not requesting any funding from the City of Ramsey, nor are they asking for a discount on land. Although Aeon is a non-profit organization, they will be paying property taxes on this project. With limited information available, staff currently estimates property taxes for this project will range from \$40K-60K annually.

After discussing the project with staff, Aeon is aware of the high architectural standards/ expectations for projects located within The COR, and has indicated no concerns with delivering a quality project (similar to Common Bond). Aeon has indicated they will own and operate this project.

As proposed by Aeon, the 3.38 parcel will be developed in phases. Phase 1 is described above (2.02 acres). Phase 2 (1.36 acres) will occur when market demand is present, and will likely mirror Phase 1. Aeon is proposing to purchase Phase 1 now, and place an "Option" to purchase Phase 2 (see observations section of this case for details).

BACKGROUND

City Purchase of OUTLOT A

The City of Ramsey purchased The COR (formerly Ramsey Town Center) in 2009 for \$6.8M, consisting of 119.26 acres of developable property. As part of the purchase, the City pulled back assessments on all City-owned property, totaling \$5.9M. The total cost of the land purchase, including the assessments is \$12.7M, which breaks down to \$2.44 per square foot. The City purchased The COR with an intent to resurrect the development project and preserve the community's original vision and master plan. The subject property is a 3.38 acre portion of the larger 119.26 acre purchase.

Site Information

The subject property is roughly 3.38 acres in size and is zoned COR 4(C) Neighborhood District (Residential). The COR Master Plan contemplates an apartment complex for this parcel. This site is located in the north central portion end of The COR, and is rectangular in shape.

Property Listing

The City has officially listed this property with a broker (listing #52). The City has established an official asking price for this property (\$2.08 psf, \$90,725 per acre, \$450,000). Aeon is not offering to purchase the entire listing (4.96 acres), they are offering to purchase 2.02 acres; which can be prorated to (\$183,000). Staff believes this parcel is attractive and marketable (unlike the recently reviewed "triangle piece"). Staff believes the sale and development of this property is not a matter of "if" but rather "when."

Aeon (project proposal)

Attached to this case is detailed background information on Aeon, the proposed project (including a project budget), example projects Aeon has completed in the past, and background information on what income restricted projects really mean. Also attached is a site concept layout and concept design (both are very preliminary).

Notification:

NA

Observations/Alternatives:

PA SUMMARY

(1) Policy Compliance

The attached PA is a hybrid version of the City's adopted "template PA" and the previously reviewed "Common Bond PA." It appears to be in compliance with City's Land Sale Policies. Staff and the City Attorney are currently making final suggested edits to the PA (which will be ready for Council review)--at this point staff has no major concerns/ edits. The proposed offer is considered market rate, and therefore eliminates any discussion of a business/ housing subsidy.

(2) Offer Price

\$183,000 (\$183,000 asking price).

(3) Earnest Money

\$9,000 to become non-refundable after inspection period (5% of offer price).

(4) Inspection Period

7 months, 12/24/2016.

(5) Agreement Term (Closing Date)

No later than 09/29/2017. NOTE: the term of this agreement is long, much like Common Bond, due to the many funding partners contemplated, and subsequent application processes.

(6) Architectural Review

Staff will be adding a clause that requires city approval of the architectural design and layout of the proposed project. This will add a layer, above and beyond our standard zoning process, to ensure a quality project.

(7) Construction Deadline

The EDA did ask for a construction deadline provision be included in this PA on 05/05/2016. Staff was asked to work with Aeon to find a reasonable solution. Please see below.

The property Aeon is considering purchasing is 3.38 acres in size. They only need 88,000 sf for Phase 1 of their proposed development (about 2.02 acres). Phase 2 of their development will occur at an unknown time in the future. Therefore, Aeon is proposing to place an option for the purchase of Phase 2. Aeon is offering \$10K per year, for five years. \$20K would be paid for upfront (become nonrefundable when the inspection period in the PA expires). The remaining payments would be made annually. As a result of this request, the original land sale price of \$300,000, and \$15,000 earnest money, were be pro-rated (\$183,000 sale price, \$9,000 earnest money).

CONSIDERATIONS

(1) Development Fees (54 units/ phase 1 only)

Parks-\$126,290, Trails-\$39,150, Water-\$90,612, Sewer-\$65,664, Storm-\$24,786. Does not include SAC/WAC or building permit fees. This is an informal estimation, changes will occur.

(2) Tax Base (54 units)

40-60K annually in total property taxes. This project is located within TIF District 14, which is a benefit to the City, as it will generate dollars for TIF 14, which can be used for various public improvements contemplated for The COR. NOTE: the city is able to pull about 60% of total property taxes for TIF. This is an informal estimation, changes will occur.

(3) Workforce Housing

Over the past two years, staff has received strong and consistent feedback from local employers help is needed to address shortages in workforce. Anecdotally, local businesses have suggested the City consider affordable housing options to help retain and attract workforce.

(4) City Transaction Costs

In order to close this transaction, the City will need to pay CBRE a commission (5% on \$300K or \$15,000). Additionally, the City will need to pay 1/2 of closing costs, state DEED tax, and the cost for a title work (estimated between \$2,000-\$4,000). NOTE: these transaction costs are all consistent with past projects and in compliance with city policies.

(5) Concentration of Workforce Housing Projects

When considering the *Seasons of Ramsey* townhome project (2013), the *Common Bond* apartment project (2016), and now potential *Aeon* apartment project (2017 or 2018), it could be perceived that a concentration of workforce housing may be occurring in The COR. Staff has no concerns with workforce housing in Ramsey, as a whole. However, because the City is the property owner in this case, discretion exists for selecting buyers/ users. The policy question here is not IF the community generally supports workforce housing, but when is workforce housing becoming too concentrated in one geographic area (i.e. The COR).

(6) Land Sale Proceeds

Staff estimates roughly \$280K of land proceeds from this transaction, which will help pay down debt associated with The COR.

(7) Retail/ Restaurants

Although this project doesn't deliver much desired and anticipated restaurants/ retail to The COR, it does move Ramsey closer to this goal. Staff is repeatedly told by prospects, developers, and brokers, the two biggest things we can do (control) to get retail and restaurants in Ramsey, is continue improving U.S. Highway 10, and continue improving demographics (i.e. butts-in-seats). As our policy makers well know, Ramsey's experienced positive momentum in both arenas over the past two years.

(8) Term of Agreement

This agreement, and the proposed funding structure, does require a longer than normal due-diligence period (i.e. closing is far out). There is a chance this agreement never closes; and in the meantime, the city passes up on other prospects. NOTE: Aeon desires to construct their project in 2017. However, 2018 construction would not be unrealistic.

STAFF NOTE

The deal structure proposed by Aeon includes a Metropolitan LCDA Grant. LCDA grants require cities to sponsor applications (technically be the applicant). Additionally, LCDA grants require two application rounds (one conceptual/ preliminary, and one formal). The preliminary/ conceptual application does not cost the City anything, nor does it commit the City to a project. The deadline for 2016 LCDA grants, preliminary/ conceptual applications, was on 05/02/2016. Staff did work with Aeon to get a conceptual application into the Metropolitan Council. If the City decides not to move forward with this project, staff will pull said application

Funding Source:

NA

Recommendation:

Outside of consideration #5 outlined in this case, which requires policy direction, staff has no concerns with this project. To-date, Aeon staff has been great to work with. Generally, this project meets all applicable city policies, and helps the City achieve it's goals for The COR, and assists with addressing community workforce shortages.

The attached PA was amended to include an architectural review provision, and a construction deadline provision.

EDA Review

The EDA did review this case on 05/05/2016. Draft/ un-edited minutes are attached to this case. The EDA recommended moving forward with the attached Purchase Agreement, subject to adding a construction deadline provision. The EDA believes its important for the City to require a quality project from Aeon (i.e. an architectural review provision in the PA).

Action:

Motion to recommend the City Council:

[approve/ amend/ deny] the attached purchase agreement between Aeon Portfolio II LLC and the City of Ramsey; subject to changes by the City Attorney.

Attachments

Site Layout and Design

Cover Letter (Aeon Proposal)

Background (Aeon)

Example Projects

Income Restrictions Detail

Sources and Uses (draft)

Property Listing

Aeon Purchase Agreement

Form Review

Inbox

Kurt Ulrich

Form Started By: Patrick Brama

Final Approval Date: 05/05/2016

Reviewed By

Jo Thieling

Date

05/05/2016 02:13 PM

Started On: 05/04/2016 04:58 PM