

PENFIELD APARTMENTS LLC

REPORT TO THE BOARD OF GOVERNORS

DATE: DECEMBER 9, 2015

REGARDING: PENFIELD APARTMENTS LLC BOARD OF GOVERNORS APPROVING AND AUTHORIZING EXECUTION OF EXCLUSIVE SALES LISTING AGREEMENT FOR THE SALE OF THE PENFIELD APARTMENTS AND ANNUAL MEETING, DISTRICT 17, WARD 2

Requested Board Action:

Staff requests authorization to execute an exclusive sales listing agreement with Moran Company for the sale of the Penfield Apartments.

Background

On February 22, 2012, the Housing and Redevelopment Authority of the City of Saint Paul (HRA) approved the final financing and HRA development of the 254 market rate apartment and Lunds grocery Penfield project. Due to the lack of private equity and tight credit market in 2010-2011, the HRA had to step in as developer. The HRA made a \$19.2 million equity investment in the \$62 million project. Other key funders included the Metropolitan Council, Minnesota Department of Employment and Economic Development, Ramsey County and Dougherty Mortgage. Risk to the HRA was mitigated by conservative underwriting and a \$41,000,000 HUD insured mortgage. Penfield Apartments LLC, formed to own the project, is solely owned by the HRA. It has not been the intent of the HRA to be a long term owner of rental real estate. Sale of the Penfield would result in a repayment of HRA equity which could be reinvested in HRA approved priorities.

Construction began the summer of 2012, tenants began occupying apartments the end of 2013, and Lunds opened for business May 15, 2014. By July of 2014, income earned by the project covered operating expenses and debt payments. In October, the Penfield was named a 2015 Grand Winner Multi-Family Mid-Rise project by the national Multifamily Executive magazine. The project's unique preservation of the building's historic façade, high level of amenities, grocery store/mixed-use, sustainable design, public plaza, public art and benches, high walkability and location near transit were

attributes cited by the magazine award committee. BKV Group architects and Weis Builders were key partners in the design and construction of this award winning project.

Penfield 2014 Year End Audit

Balance Sheet Summary

ASSETS

Cash	\$1,688,854
Deposits and Escrows	\$2,250,942
Net Property Value	\$56,049,748
Finance fees and other	<u>\$540,911</u>
Total Assets	\$60,530,455

LIABILITIES AND EQUITY

Current liabilities	\$896,379
Security deposits	\$98,560
HUD insured mortgage	\$39,810,124
LLC Equity	<u>\$19,725,392</u>
Total Liabilities and Equity	\$60,530,455

Statement of Operations and Cash Flow

Per governmental auditing standards the project generated \$264,474 in 2014. Per the HUD formula, there was \$432,897 of "Surplus Cash" in 2014. The LLC is permitted to take Surplus Cash out of the project. Per unaudited statements the Penfield has 2015 net income of \$609,100 through October 30, 2015. Attachments D and E contain detailed 2014 balance sheet, operations and cash flow numbers.

HRA Payments

Per the December 22, 2011 Penfield Apartments LLC staff report, all net cash flow revenue (after debt service, operating expenses, reserves and HRA administrative fees are paid) is to be deposited with the HRA. Per the Penfield Apartments LLC Board of Governors resolution of the same date, the LLC Chief Manager (Executive Director of the HRA) is directed to remit to the HRA all net cash flow after priority payments. Per the resolution of the same date approved by the HRA Board of Commissioners, net cash flow after priority payments is to reimburse the \$1,505,424 Fund 117 loan.

The \$1,000,000 operating deficit reserve and Lunds lease reserve of \$830,000 have been fully funded. Per the LLC and HRA directives, the Chief Manager has remitted \$445,103 to the HRA general fund to pay HRA fees and \$332,806 to the HRA Enterprise Loan Fund 117 for partial repayment of the

\$1,505,424 HRA loan. Payments to the HRA and full funding of the LLC reserves were made from LLC net cash which included unexpended project funds, the operating deficit escrow released by the lender, and funds generated from project operations.

On June 26, 2013, the Penfield Apartments LLC approved a resolution authorizing a payment of \$500,000 to the Penfield Condominiums LLC (PCLLC) to be paid in installments from excess cash flow after all expenses, priority payments, and HRA loan payments have been made. This payment is for pre-development services including the negotiation of the initial Lunds lease, initial project concept, design and financing. Since the HRA Fund 117 loan has not yet been repaid, the Chief Manager of the LLC has determined there is not excess cash flow to make a payment to the PCLLC at this time.

Listing Agreement

Staff recommends execution of a listing agreement with Moran Company for sale of the Penfield in 2016. After researching multi-family housing brokers, staff solicited proposals from four firms. A PED committee interviewed the brokers and evaluated the proposals. Staff recommends hiring Moran Company due to the firm's history of large scale transactions, national relationships, knowledge of HUD financing, and aggressive strategy to maximize sales proceeds.

Future Action

When a Purchase Agreement has been negotiated, a resolution to approve and authorize the sale of the Penfield will be brought to the Penfield Apartments LLC Board for action.

Recommendation: The Chief Manager recommends Board approval of the attached resolution.

Sponsored by: Company member Dave Thune

Staff: Marie Franchett

Attachments:

- Attachment B - Map
- Attachment C – Building Photo
- Attachment D - Balance Sheet Summary
- Attachment E - Statement of Operations and Cash Flow