

PENFIELD APARTMENTS LLC

REPORT TO THE BOARD OF GOVERNORS

DATE: MARCH 30, 2016

REGARDING: PENFIELD APARTMENTS LLC BOARD OF GOVERNORS APPROVING AND AUTHORIZING EXECUTION OF A PURCHASE AGREEMENT FOR THE SALE OF THE PENFIELD APARTMENTS, DISTRICT 17, WARD 2

Requested Board Action:

Staff requests authorization for the Penfield Apartments LLC to execute a purchase agreement with LIPT 10th Street East LLC 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 development of the Penfield project which included 254 market rate apartments and a Lunds & Byerlys grocery store. The HRA made a \$19.2 million investment in the \$62 million Penfield Apartment project. It was not the intent of the HRA to be a long term owner of commercial real estate. On December 9, 2015, the Penfield Apartments LLC authorized execution of a broker listing agreement with Moran and Company and directed them to solicit bids for the property.

- Five bids were received with the highest bid of \$68,000,000 from LaSalle Investment Company (LaSalle). The parent company Jones Lang LaSalle has \$58 billion in real estate assets.
- A LaSalle core institutional diversified fund for individual investors, with \$1.5 billion in assets, has formed the special purpose entity LIPT 10th Street East, LLC to buy the property.
- Moran and Company, is confident LaSalle can close the sale quickly as the LaSalle fund has full access to capital.
- LaSalle will complete its due diligence within a 21 day period. A closing is anticipated the end of April.

At closing the \$39,531,213 HUD insured loan will be paid off. After payoff of the loan and expenses, plus income from reserves and 2015 cash flow, net cash to the HRA from the sale will be approximately \$26,870,000. This represents a return on investment of 40%.

Revenues realized from the sale can be characterized as:

Return of TIF balance equity	\$11,752,081
Return of HRA equity	\$7,442,948
Profit	<u>\$7,674,971</u>
Total Net Cash	\$26,870,000

In addition to the \$7,674,910 in profit to the HRA an estimated \$200,000 generated from cash flow in 2016 less transaction costs will be paid to the HRA after closing. The 2016 cash flow final number and transaction costs will be determined at the closing. Finally, \$451,032 of the proceeds from the sale of the Penfield will be returned to the Penfield TIF district to be spent in accordance with the TIF law.

Public Purpose

- The former Public Safety Building, a functionally obsolete and deteriorated structure, with adjacent contaminated soils, was redeveloped and put on the property tax roll.
- The Penfield established the market for new higher end apartments in downtown St. Paul. The City has seen approximately \$252 million in private investment in market rate housing downtown including the Pioneer Endicott, Rayette, Custom House, Oxbo, and 333 Sibley projects since the successful completion of The Penfield.
- The Penfield brought a Lunds & Byerlys full-service grocery to downtown. The store is an important amenity for residents, workers, businesses and property owners. This amenity has helped attract additional investment in downtown.
- Sale of the Penfield will return funds to the HRA that can be reinvested in new projects.
- The project was built to meet the City Sustainable Development Policy and LEED Silver Certification requirements and has a model green roof that mitigates storm water run-off.

- With decertification of the Penfield tax increment finance district, property taxes generated by the property will flow to the City, County and School district. Penfield property taxes for 2016 total \$865,708 and will increase with future revenue growth (with \$760,900 captured by the TIF district).

Future Action

- Penfield Apartments LLC transfer of revenues to the HRA
- Dissolution of the Penfield Apartments LLC
- HRA termination of the Penfield tax increment finance redevelopment district
- HRA budget amendment accepting revenues from the Penfield Apartments LLC

Statement of Chairman

“Being duly authorized by the Board of Governors to conduct this Public Hearing, the hearing is now open. This is a Public Hearing called for the purpose of conveyance of a certain Property located in District 17 by the Penfield Apartments LLC.

Notice of time, place, and purpose of this hearing was published in the Saint Paul Pioneer Press on March 18, 2016. The Affidavit of Publication of the Notice of Public Hearing will be made a part of these proceedings.

The HRA proposes to convey the following property in the District 17:

Property Description

Lots 1 through 14, Block 6, Roberts and Randalls Addition to Saint Paul,, Ramsey County, Minnesota, except the Easterly 20 feet of Lots 1, 2, 3, 12, 13 and 14.

Purchaser/Developer: LIPT 10th Street East, LLC

Purchase Price: \$68,000,000

The property will be conveyed for: Private ownership and operation of the project.

Is there anyone who wishes to be heard on this sale? If not, the Chair will declare this Public Hearing adjourned.”

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

Sponsored by: Company member Noecker

Staff: Marie Franchett, 266-6702

Attachments:

- Attachment B - Map
- Attachment C – Building Photo