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City of Minneapolis – Community Planning and Economic Development  
C/O Miles Mercer  
105 Fifth Avenue South – 200  
Minneapolis, MN 55401-2534

Dear Miles,

As you know, Ryan Companies and its project partners have been deeply engaged with the City on development due diligence related to the Block One air rights project in Downtown East. This is an incredibly complex project that is trying to balance the needs of the owner of the ramp (the MSFA), working within the framework of an existing ramp design and operating agreements, all while trying to optimize sales proceeds to the City. We have appreciated all of the energy and support and know this has been a massive team effort from a number of stakeholders including the City.

Ryan companies is deeply invested in the overall success of Downtown East, and is making a huge investment and taking significant development risk to make the Downtown East redevelopment area the best it can be. Ryan is very much vested in making sure that the Block One development meshes with the overall vision for the area. Further, since sale proceeds from the block one air rights have been envisioned for use in the yard, we have seen it in Ryan's and the cities mutual best interest to maximize the sales proceeds and development potential on that site.

At the end of March, the city selected Ryan to be the developer of the Block One Air Rights. Ryan's initial proposal included multiple development scenarios, with our preferred option being an aggressive and very dense development including over 300 residential apartments and a 160 room hotel, a concept similar to a project called Aqua that was completed in Chicago in 2007. This scenario provided for a payment to the city of \$5.6M for the air rights. A number of challenges have caused the optimal scenario to be unfinanceable at that purchase price and City staff and Ryan have been negotiating in good faith on a term sheet with a structure similar to the initial multiple development scenarios originally proposed by Ryan.

As we have all hoped to achieve these sale proceeds, it is important that we explain the reasons why the air rights price for our optimal scenario has changed and why it is our opinion that it is in the City's best interest to continue forward. First of all, the hotel component of the project proved to be economically unfeasible in the complex high-rise design, and the hotel partner terminated their pursuit of the tower project. Second, Ryan's assumption that the air rights development could include certain key modifications to the parking ramp proved false. More specifically, in Ryan's original proposal and in the April 9<sup>th</sup> design plans (the required submittal date as defined in the February 10<sup>th</sup> Development Agreement) Ryan had made design assumptions that a loading dock could be included within the footprint of the parking ramp and that certain structural enhancements to allow for flexibility in the air rights design could be included. These assumptions caused certain impacts in the operating performance of the parking ramp and they were not approved. Third, Ryan's initial concept budget assumption also assumed that Ryan would have the opportunity to take advantage of ramp structure as well as construction efficiencies in being able to construct both the parking structure and portions of the new project simultaneously proved false. With the lack of approval of the initial design, combined with the existing contractual requirement to get the 1,610 stall ramp open as soon as possible, it was not possible to gain the expected construction efficiencies, which also affected the purchase price.



To provide additional detail, Ryan's February 4<sup>th</sup> RFP response included concept pricing based on some preliminary design concepts of the parking ramp and tower and without the benefit of subcontractor pricing. After March 28<sup>th</sup> council action (designating staff to negotiate exclusive development rights with Ryan) Ryan/Magellan began work to complete a more detailed design. From this detailed design, Ryan, along with support from A&P, Magellan's construction partner on the LPM tower, completed a more detailed project budget on May 15<sup>th</sup> which was based on the more comprehensive design and included actual subcontractor pricing. The May 15<sup>th</sup> budget pricing came in significantly higher than Ryan's initial estimates, putting further pressure on the purchase price. Therefore, the May 15<sup>th</sup> budget was a more realistic analysis of the cost of this project. To validate these changes, city staff reviewed of the initial and revised construction pricing and development budget.

David Carlins, President of Magellan, has recently reiterated his commitment to aggressively pursue the apartment tower project. Ryan/Magellan have now increased the apartment units for the tower to approximately 360 units. This type of development accomplishes a number of goals including helping to double the city's downtown population by 2025. The larger apartment project would add significantly to the property tax base as well as contribute significant impact fees to the City. This apartment tower project would create about 450 construction jobs over a 20-month construction period, as well as a number of permanent jobs in both the new building and in the retail spaces expected in the completed project. Finally, a project on the Block One site would also reinforce the regional goals of spurring private development in the area around the new stadium.

In approving the current proposal, Ryan will take the immediate risk in completing an estimated \$1.6M in the design and construction of additional ramp features and structure to optimize future development possibilities for the site, and therefore maximizing the initial sale proceeds and future tax benefit to the City. Steel for the additional structure on the ramp site must be ordered in October so that construction activity can commence. Because Ryan is required to take this significant risk in advance of an approved project, we feel this is one of the key reasons why it is in the City's best interest to take immediate action.

We remain committed to the pursuit of the Block One site and feel it is a special opportunity. We look forward to working with our project partners, the City of Minneapolis, and other local stakeholders to make this significant project a reality.

A handwritten signature in green ink that reads "Tony Barranco".

Tony Barranco  
Ryan Companies US, Inc.