

**Wellington Management Inc.'s Response
to the City of Minneapolis' Request
for Redevelopment Proposals
at Penn and Lowry Avenues North**

Revisions as of October 31, 2005



Description of Proposed Development: Penn-Lowry Crossing

WMI's approach reflects its standard practice of providing high quality and responsive development options to its clients. Key to WMI's proposal is the commitment by ALDI Inc. to locate a grocery store in a new 15,700 square foot building at the intersection of Penn and Lowry. A grocery store is desirable for the neighborhood and the ALDI Inc. name is synonymous with high quality and great value products. ALDI Inc.'s goal is to provide customers with the products they buy regularly, to ensure those products are of market leading quality, and to offer them at guaranteed low prices.

As described further below, WMI has also taken care to incorporate in its redevelopment plan proposal space for the existing businesses present at Lowry and Penn.

Plan A: Revised 10/31/05

WMI has included in its preferred, revised redevelopment plan schematics, Revised Plan A (Appendix A) all five parcels required by the RFP. In addition, WMI has also included in Revised Plan A the following additional properties:

- A single family residence, located at 3101 Oliver Avenue North. The current owners of this property have entered into a purchase agreement with the WMI development team (see Appendix B: Purchase Agreement for 3101 Oliver Avenue North.
- Two additional single family residences located at 3107 Oliver Avenue and 3111 Oliver Avenue. The development team has had preliminary discussions with the owners of these two properties and feels confident that mutually satisfactory agreements can be negotiated with the owners of these two properties.
- The City-owned vacant lot located at 3027 Oliver Avenue. City staff has indicated that it would be acceptable to include this lot located immediately south of 3101 Oliver Avenue, which is under contract to WMI, as part of this RFP response. WMI recognizes that site control would only occur after action by CPED and the City of Minneapolis and that no formal agreement exists concerning the disposition of this property.

- The “Family Dollar Store commercial building”. WMI has entered into a binding purchase agreement with Consolidated Investment Properties, C.I.P., Inc. on acceptable terms for purchasing 3010 Penn Avenue North (Appendix B: Agreement to Purchase with Robert and Susan Rappaport).

WMI has assumed site control of all these properties in Revised Plan A. As indicated, WMI has taken care to incorporate existing businesses present at Lowry and Penn. Family Dollar would remain in its location and would be joined by Resources, Inc. or possibly the North End Hardware, which would relocate into approximately 7,000 square feet adjoining Family Dollar. Additional retail space will be available in two separate buildings along Lowry: Building A with 6,500 s.f. of retail space and Building B with 4,400 s.f. of retail space. Any storm water management needs are assumed to be accommodated through the City’s existing storm water system.

Penn-Lowry Crossing would completely transform the southeast corner of this intersection into a vibrant retail center extending along Lowry framing the intersection from the corners of Penn and Oliver and providing the urban development look sought by the neighborhood and the City. At least two large retailers would “anchor” this new retail center –ALDI Inc. and Family Dollar. Other retail space will be available for relocation of local businesses including the North End Hardware and chiropractor offices. The combination of these two strong tenants will provide the critical mass for a successful retail center. This re-energized hub of retail activity would likely spur new investment on the other three corners of this intersection and would provide a strong sense of “place” to this important commercial node. Furthermore, when this new retail development is combined with the proposed transportation improvements along both Penn and Lowry, the desired transformation of this commercial center will be assured.

Net Rents:

The estimated net rents for the proposed 40,600 s.f. retail center would be as follows:

1. ALDI Inc.– 15,700 s.f. at \$14.75/s.f.
2. North End Hardware and other retail shops, 10,900 s.f. at \$12.00/s.f.
3. Family Dollar Store, 7,000 s.f. at \$9.00/s.f.
4. Resource, Inc., 7,000 s.f. at \$10.00/s.f.

Parking:

Parking is indicated on the Revised Plan A in Appendix A.

Design Details:

The design plans for the new Penn-Lowry Crossing involve brick exteriors with stucco accents, extensive landscaping, and brick detailing intended to recall the earlier days of north Minneapolis when the Penn-Lowry corner was the center of this neighborhood's retail activity.



1930s, Courtesy Minneapolis Public Library Collection

Other design details of Penn-Lowry Crossing include: neighborhood oriented businesses, that are “destination” businesses, community green space and plaza, well lighted parking including pedestrian scale lighting; short term retail parking, bicycle parking facilities and pavers on the plaza. An effort has been made to connect the proposed transit stop pedestrian improvements with the new retail center so that this project can provide an attractive way to accommodate both pedestrian and vehicular traffic.

Alternative Plans:

In addition to preferred Revised Plan “A”, WMI included three alternate plans in Appendix A. At this time, those Plans are not being modified to reflect the changes in Revised Plan A but WMI is willing to make similar changes if any other plan is given serious consideration. The original, alternative Plans are:

- Plan B – Plan B assumes that the additional two houses along Oliver cannot be acquired. This is certainly not the desired design scheme, but the development team wants the City to understand there is a design scheme in the event site control over property where no formal agreements presently exist is not possible.
- Plan C – Plan C assumes that additional homes along Oliver (including 3001, 3007, 30111, 3015, 3019 and 3023) can also be successfully acquired privately by WMI through mutually acceptable purchase agreements. This would enable an expansion of the proposed retail center. Resource, Inc. could then be relocated to a new building along Oliver and a new restaurant tenant could occupy the south 7,000 s.f. of the Family Dollar Building.
- Plan D – WMI has also taken the liberty of suggesting a “master plan” for the NW and SE quadrants with new multi-story housing developed on the NW corner. While this plan is somewhat speculative at present, it is intended to provide an image of what the future could be for this newly revitalized commercial center in north Minneapolis.



*Penn Lowry Project
Wellington Management, Inc.
October 31, 2005*

SOURCES			
FIRST MORTGAGE FINANCING	\$4,403,333	80.00%	Of appraised value
DEVELOPER EQUITY	\$1,191,357		
ALDI CONTRIBUTION TO CONSTRUCTION	\$700,000		
TOTAL SOURCES	\$6,294,690		
USES			
ACQUISITION			
PRIMARY CITY PARCEL	\$239,690	city price	
EXISTING COMMERCIAL BLDG. 3101, 3111, 3107 OLIVER , & city lot (3027 Oliver)	\$1,100,000	signed p.a.	
	\$450,000	signed p.a.	for 3101
TOTAL ACQUISITION	\$1,789,690		
DEMO, ENVIR., SITE WORK			
DEMOLITION AND SITE PREPARATION	\$75,000		
UTILITIES AND STORM WATER	\$100,000		
ENVIRONMENTAL LANDSCAPING, PLAZAS, SITE AMENITIES	\$50,000		
	\$75,000		

TOTAL DEMO, ENVIR., SITE WORK	\$300,000
CONSTRUCTION	
ALDI CONSTRUCTION (15,700 S.F.)	\$1,900,000
CONSTRUCTION OF RETAIL BLDG. #1 (4,400 S.F. OF SIDE SHOPS)	\$440,000
CONSTRUCTION OF RETAIL BLDG. #2 (PROPOSED 6,500 S.F. CORNER BLDG.)	\$650,000
REMODEL OF FAMILY DOLLAR BUILDING	\$325,000
TENANT IMPROVEMENTS	\$275,000
CONTINGENCY	\$50,000
TOTAL CONSTRUCTION	\$3,640,000
SOFT COSTS	
LEGAL	\$40,000
ARCHITECTURAL AND ENGINEERING	\$115,000
FINANCE FEES	\$35,000
DEVELOPER FEES	\$125,000
BROKERAGE FEES	\$110,000
PROJECT MANAGEMENT	\$75,000
TITLE AND CLOSING	\$15,000
SURVEY	\$8,000
ENVIRONMENTAL	\$6,000
APPRAISAL	\$9,000
INSURANCE	\$7,000
CONTINGENCY	\$20,000

TOTAL SOFT COSTS	\$565,000
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TOTAL PROJECT COSTS	\$6,294,690
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CASH FLOW ANALYSIS - YEAR #1

	S.F.	RENT/S.F.	NET RENT
ALDI	15,700	\$14.75	\$231,575
SIDE SHOPS, BLDG. #1	4,400	\$12.00	\$52,800
BUILDING #2	6,500	\$12.00	\$78,000
EXISTING BUILDING	14,000		
FAMILY DOLLAR	7,000	\$9.00	\$63,000
RESOURCE, INC.	7,000	\$10.00	\$70,000
TOTALS	40,600		\$495,375

ESTIMATED VALUATION (APPRAISAL)			
CAP RATE	9.00%		\$5,504,167
			\$135.57 per s.f.

DEBT FINANCING

PRINCIPAL	\$4,403,333
INTEREST	6.25%
TERM	25
PAYMENT	\$348,569
DEBT COVERAGE	1.42

RETURN ON EQUITY

STABILIZED CASH FLOW	\$146,806
VACANCY ALLOWANCE	-\$10,000
ANNUAL RESERVES @3% OF NOI	-\$13,000
NET CASH FLOW	\$123,806
STABILIZED RETURN ON EQUITY	10.39%

FIVE YEAR CASH FLOW PROJECTION	1	2	3	4	5
NET OPERATING INCOME	\$495,375	\$495,375	\$495,375	\$495,375	\$495,375
DEBT SERVICE	\$348,569	\$348,569	\$348,569	\$348,569	\$348,569
CASH FLOW AFTER FINANCING	\$146,806	\$146,806	\$146,806	\$146,806	\$146,806
RESERVES	\$13,000	\$13,000	\$13,000	\$13,000	\$13,000
ALLOWANCE FOR VACANCIES	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
NET CASH FLOW	\$123,806	\$123,806	\$123,806	\$123,806	\$123,806