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MEMORANDUM

TO: Schane Rudlang, Port Authority Administrator

FROM: Tony Schertler, Senior Vice President/Consultant
Mikaela Huot, Vice President/Consultant
Julian Bradshaw, Analyst

DATE: December 4, 2014

SUBJECT: LMC Bloomington Holdings, LLC Apartment Project Risk Assessment Analysis
Bloomington Central Station (BCS)

Springsted was retained by the Port Authority to provide a third-party review of the proposed financing plan for the anticipated commencement of an approximate 395-unit apartment project within the Bloomington Central Station project area, as well as an analysis of the financial capacity of the participating members of the development team undertaking the effort. The objective of the analysis is to assist the Port Authority and City Council with an understanding of the following:

- Verify the debt and equity required for the project to proceed and the level of financial commitment in place at the time this report is completed
- Identify the investor participants and the roles they will play in the development
- Level of public financing required that allows the project to proceed; and any implications the required public financing commitment may have on the existing development contracts
- General background review of Lennar's past business practices

The purpose of this review is to analyze the financial capacity of the applicant development entities and their respective members to verify the access to the financial resources necessary to provide the level of equity financing necessary for the apartment project to proceed. In making this determination we have reviewed Dun and Bradstreet reports, available financial information, and developer disclosures provided by the entities. The apartments within Bloomington Central Station will be developed by LMC Bloomington Holdings, LLC (a wholly owned subsidiary of Lennar Multifamily Communities, LLC and ultimately Lennar, Inc.). LP and LMC will each have a separate entity rolled up into the LMC Bloomington Holdings, LLC and will be providing the equity necessary for the project to proceed.

Project Overview

The developer, LMC Bloomington Holdings, LLC has proposed construction of a \$65.7 million six story housing development to include 395 apartment units (336,554 NRSF). The development is proposed to be located within the Bloomington Central Station development, just north of the existing Reflections buildings on land currently owned by the Port Authority. The Port Authority would convey the land to the developer for development of the apartments at the time of land closing. The proposed housing development also includes the construction of a parking ramp for the apartments, as well as additional public improvements that would be financed by the Port Authority and assessed to the developer.

The public improvements are anticipated to include a 654 stall structured parking ramp and on-site infrastructure costs. The estimated total amount of public funding includes structured parking of \$6.8 million and on-site infrastructure costs of \$814,875 (plus interest and issuance costs).

Sources and Uses (from Oct-14)

<u>Apartments</u>	
Ownership	LMC Bloomington Holding, LLC
# of Units	395

<u>Public Improvements</u>	
Ownership	LMC Bloomington Holding, LLC
# of Stalls	654

Sources of Funds	
Equity (LP and LMC)	\$26,288,832
Debt	\$39,433,249
Public Funding	0
Total	\$65,722,081

Sources of Funds	
Equity	
Debt	
Public Funding	\$7,614,875
Total	\$7,614,875

Uses of Funds	
Land Acquisition	\$3,638,000
Development Costs	\$51,599,498
Soft Costs	\$10,484,583
Total	\$65,722,081

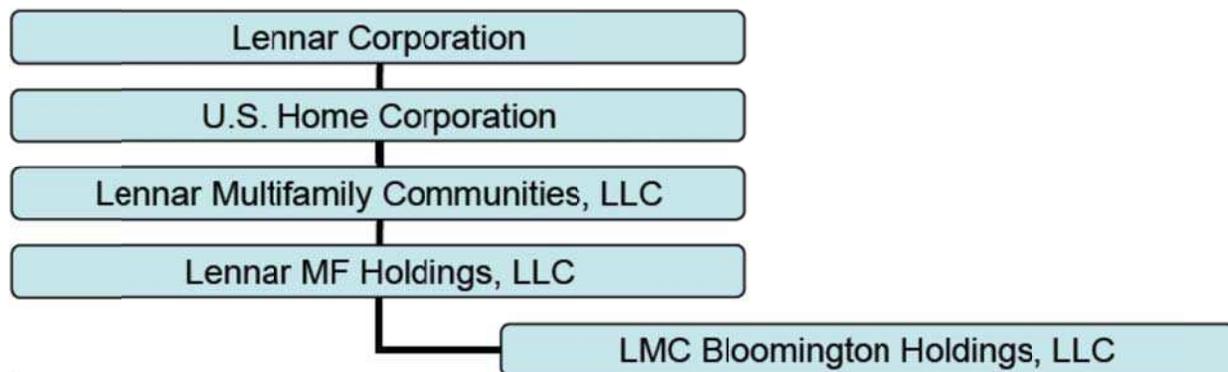
Uses of Funds	
Parking	\$6,800,000
Infrastructure	\$814,875
Total	\$7,614,875

Development Entity

The development entity is an established limited liability corporation titled LMC Bloomington Holdings, LLC, which is a single-asset entity created for the development of the proposed Bloomington Central Station apartment project. The newly created entity is a wholly owned subsidiary of Lennar Multifamily Communities (which is a subsidiary of Lennar Corporation). According to the company, Lennar Multifamily Communities specializes in the creation of urban, suburban, and student housing. Lennar Multifamily Communities also provides construction management, asset management, development and property management services for rental communities. As a subsidiary of Lennar Multifamily Communities, LMC Bloomington Holdings, LLC will lead the project and manage the housing development once complete. The developer will establish LP and LMC upon closing of the loan for construction commencement.

The flow chart below illustrates the organizational structure ultimately responsible for the development entity, LMC Bloomington Holdings, LLC.

ORGANIZATIONAL STRUCTURE



We anticipate the LP and LMC will be created entities under the LMC Bloomington Holdings, LLC for this project.

Proposed Financing

LMC Bloomington Holdings, LLC is anticipating financing the total project cost amount with a combination debt (approximately \$39.4 million) and equity (approximately \$26.2 million). LMC Bloomington Holdings, LLC expects to obtain financing from a large institutional bank. The newly created LP and LMC will provide the equity investment of \$26.2M under LMC Bloomington Holdings, LLC. At this time, LMC Bloomington Holdings, LLC is in the process of identifying a lender, and at that point it will be possible to further articulate the financing terms for the project. It is our understanding, based on the information provided to us, that LMC Bloomington Holdings, LLC has agreed to purchase the development land from the Port Authority for \$1,123,000, in lieu of the value of the McGough loan of \$5,273,000 representing a land write down of \$4,150,000. LMC has agreed to pay McGough \$2,000,000 as part of the closing. The land acquisition would be financed through a combination of developer equity and debt similarly to the estimated construction and soft costs of the project.

Applicant Disclosures

We requested answers to the following disclosure questions with responses provided by the developer:

- Has the developer or any affiliated party defaulted on a real estate obligation?

Response: *Neither Lennar Multifamily Communities nor its subsidiaries have defaulted on any real estate obligations.*

- Has the developer or any affiliated party been the defendant in any legal suit or action?

Response: *Lennar Multifamily Communities has not been the defendant in any legal action other than one Human Resources case, which was settled before trial. Lennar Corporation and its subsidiaries other than Lennar Multifamily Communities have various pending litigation matters related to its other business units, which, if required by applicable securities regulations, are disclosed in periodic filings with the Securities and Exchange Commission.*

- Has the developer or any affiliated party declared bankruptcy?

Response: *Neither Lennar Multifamily Communities nor Lennar Corporation has declared bankruptcy.*

- Has the developer or any affiliated party had judgments recorded against them?

Response: *Lennar Multifamily Communities has not had any judgments recorded against them. Over the normal course of business, Lennar Corporation and/or its subsidiaries other than Lennar Multifamily Communities have had judgments recorded against it, but in all instances such judgments were properly discharged or paid. The developer, Lennar Corporation, and Lennar Multifamily Communities, LLC responded negative on all of the above questions, with the caveat being a human resources case that was settled before trial.*

Conclusion

The entities affiliated with the development entity LMC Bloomington Holdings, LLC are all engaged in commercial/ rental real estate and operations related to the management of that type of business. A majority of their assets are real estate related. Their abilities to generate financing, through a combination of debt and equity should be feasible based on the financial conditions we examined. We note, however, that the information we were provided represents a snapshot in time, and therefore does not guarantee the available cash will be there upon closing. We recommend the Port Authority proceed with financing of the public improvements at the time when the developer has secured financing for the project and is able to commence construction. LMC Bloomington Holdings, LLC plans to obtain debt financing for approximately 60% of the estimated project costs and will finance the remaining approximate 40% with equity. At this time, the company is in the process of identifying a lender for construction financing with additional information available as the project proceeds.