



March 26, 2021

City of Blaine  
10801 Town Square Drive NE  
Blaine, MN 55449

RE: Blaine 35 - Light Industrial/Manufacturing Campus

Mayor Sanders & City Council Members:

Thank you for your reconsideration of 100% wetland credit or equivalent assistance amount for Blaine 35.

In advance of the EDA vote on April 5, this memo serves to provide additional insight into the financial hurdles associated with the project, the stakeholders and beneficiaries contributing to the success of the development, and Artis REIT's decision-making process to ultimately make a significant investment into the community. This information is shared in good faith. Please respect its confidentiality.

**Financial Hurdles:**

There are several extraordinary costs associated with the property beyond those presented in the December 30, 2020 TIF & City Financial Assistance letter. Artis REIT is not asking the city to help offset these additional costs.

A few examples include:

- 1) In early January, against the opinion of Sambatek (civil engineer) and AET (geotechnical engineer), RCWD required the redesign of stormwater detention systems to accommodate a higher groundwater elevation. This resulted in \$13,000 in redesign fees and a \$700,000 add to the project.
- 2) The DNR did not accept the threatened and endangered species survey completed in August 2020 due to the mowed condition of the property. Prior to construction of Building B & C, the DNR is requiring a resurvey of the associated lots in an unmowed condition. Due to the biology of the plant species on record of being within the vicinity of the property, the survey can only be completed in August 2021. This leaves the construction of Building A as the only development option for 2021. Constructing only one building results in a construction cost premium of approximately 5% or \$400,000 due to lost economies of scale and construction efficiencies.
- 3) After the 35W Service Drive was reconfigured and the public drainage ditch (ARJD1, BR2) was relocated in 2006, the regional drainage model and FEMA flood hazard map were never updated. The outdated records remain in place and encumber a significant

portion of the northeastern corner of the property. Artis REIT has commissioned Sambatek and AE2S to update the hydraulic model and complete an application to FEMA. Their services come at an estimated cost of \$35,000 - \$50,000, which includes correspondence with state and federal government agencies.

Despite these project cost increases and others, the amount of public assistance requested of the city remains unchanged.

#### **Stakeholders and Beneficiaries:**

The primary stakeholders and beneficiaries of this development are the seller, Artis REIT, and the City of Blaine. From the outset, Artis REIT realized the challenges associated with the property and took significant care in determining the public/private assistance needed by all stakeholders to deliver a Class A development. Dollar amounts were not reached arbitrarily.

Regarding the seller, the property is approximately 30 acres and is under contract at a price of \$2.86/SF. This is significantly below market, which is between \$4 - \$5/SF. The seller has owned the property for 22 years with multiple development opportunities and land sale contracts failing to close. He is willing to accept the discount to facilitate a sale and finally see it developed. The seller is 74 years old and recently lost his son in a tragic machinery accident. For reference, Table 1 outlines recent land sale comps as prepared by CBRE.

TABLE 1: Land Sale Comps

Buyer	Seller	City	Address	Acres	Year	Price (\$/SF)
Duke	Sauer	Maple Grove	10500 Fountains Dr.	25	2018	\$5.50
Duke	Lehigh Hanson	Maple Grove	10520 89 <sup>th</sup> Ave. N	47	2018	\$4.00
United Properties	Gresser	Maple Grove	9360 Decatur Dr. N	18.93	2020	\$4.30
Scannell	Harstad	Brooklyn Park	10625 Winnetka Ave N	73.59	2019	\$3.47
Endeavor	LDI	Brooklyn Park	9501 Louisiana Ave N	5.58	2021	\$4.12
Scannell	Roberts	Arden Hills	19XX Gateway Blvd.	23	2021	\$5 - \$5.50 Expected

Artis REIT is currently underwriting the development, assuming the City of Blaine meets the full level of assistance requested, at a yield on cost of approximately 6%. This includes waiving its development fee, which was previously considered in the analysis submitted to city staff last year. In accordance with company policy, this is traditionally not acceptable nor are returns below 7%. Since Artis' portfolio is hovering around 98% occupancy and acquisition costs continue to exceed development, exceptions to this rule are being considered.

Finally, the City of Blaine and its residents, have the most to gain from this development. The remaining balance of wetland credits in question (or \$322,344) is a drop in the bucket to the overall economic benefit this project will generate and sustain. In addition to creating construction jobs and bringing local and national employers to the city, the development is fuel for growth in housing, products, and services (e.g., restaurants, grocery stores, retail, etc.), amongst others. On the flip side, the development assistance afforded by a 100% commitment to wetland credits provides the needed funds to meet quality construction considerations Artis REIT and the City of Blaine expect at this location. Examples include four-sided architecture consisting of a mix of quality materials, mature landscaping, and appropriate screening required for mechanicals and separation of adjacent residential zoning districts. Funds to cover these requirements would otherwise be secured but for the extraordinary costs of the site.

**Artis REIT Investment Committee:**

On Wednesday, March 24 Artis REIT's Investment Committee sided in favor of greenlighting the development. Consistent with underwriting, this assumes approval of 100% wetland credit or an equivalent level of assistance. Pending final entitlement approvals, the campus will kick-off with construction of Building A this year and conclude with Building B & C in 2022.

The Investment Committee's decision is significant. For perspective, Artis REIT's current financial commitment to the project is roughly 1% of the overall anticipated \$35 million investment. Artis currently has industrial development projects under construction in Houston and Phoenix. Although the Twin Cities market is very active, these markets are performing better and are competing for additional investment.

**Conclusion:**

I hope this memo provides the insight and assurance for Council to make an affirmative vote on April 5. The commitment puts the city's best foot forward to 1) ensure quality construction and position the development for long-term success, 2) reaffirm its commitment to good paying industrial and manufacturing jobs, and 3) fuel and sustain growth in other sectors. In step with all stakeholders, we look forward to bringing this development to fruition. Please do not hesitate to contact me directly with any additional questions you may have.

Sincerely,



Alex Rexrode, Director of Construction – US Region, Artis REIT

[arexrode@artisreit.com](mailto:arexrode@artisreit.com)

608.609.2181