



Date: November 16, 2017

To: Cara Pavlicek, Village Manager

From: John Lynch, Executive Director, OPEDC

Subject: Price reduction for Village owned property at 940-970 Madison Street

Background

On December 14, 2016, the Village of Oak Park issued a request for proposals (RFP) for the purchase and redevelopment of 940-970 Madison Street, Oak Park, formerly home to Robinson's Ribs and the D97 administration building. Seven interested parties responded to the RFP. After careful consideration, the OPEDC Board recommended that Lexington Homes be selected as preferred developer for their proposal of 21 townhomes. On June 5, 2017, the Village Board approved the selection of Lexington Homes as preferred developer.

Request

The Village has received a request from Lexington Homes for a price reduction on the property at 940-970 Madison Street. Lexington is requesting a reduction of about \$85,000, from an original price of \$1,050,000 (\$50,000 per townhome) to a price of about \$965,000 (\$46,000 per townhome). The Village has asked the OPEDC board to review the request and provide a recommendation.

Lexington cites two primary reasons driving the need for a price reduction:

- The increased cost of construction materials, specifically lumber, which averaged over 20% since the project was originally approved.
- The increased cost of enhanced exterior elevations to improve aesthetics and incorporate contemporary details suggested by the Village's architectural consultant.

As a result, bid prices for the vertical cost of construction have increased from prices averaging \$222,336 per unit to \$248,806 per unit since the project was approved.

We have discussed the development economics with Lexington and find credible their conclusion that without a price reduction, their net margins are below a level that supports continuation with the project. We note that they have shown a willingness to reduce their profit expectations, as the full increase in construction cost is not reflected in their request and they have reduced the magnitude of their request nearly 50% since these discussions began.



In comparison to the other proposals received for this property, the requested price reduction would place Lexington's offer price below that of two bidders: Keystone Ventures, which proposed a purchase price of \$1,000,000 for a retail development, and Paragon Real Estate, which proposed a purchase price of \$1,050,000 for a senior housing development. (Other bids ranged from \$500,000 to \$850,000.) Even so, OPEDC continues to believe that Lexington's proposal is the most beneficial to the Village in terms of land use compatibility, timing, certainty of completion, and stabilization.

As a result, OPEDC and its Board supports Lexington Homes' request for a price reduction and the Village's continued engagement with them as preferred developer for 940-970 Madison Street.